31.5 Cost Allocation and Cost Recovery

31.5.1 The Scope of Attachment Y Cost Allocation

31.5.1.1 Regulated Responses

The cost allocation principles and methodologies in this Attachment Y cover only Designated Reliability Transmission Projects, Designated Economic Transmission Projects, ~~and~~ Designated Public Policy Projects, and Designated Long-Term Transmission Projects. The cost allocation principles and methodology for: (i) Designated Reliability Transmission Projects are contained in Sections 31.5.3.1 and 31.5.3.2 of this Attachment Y, (ii) Designated Economic Transmission Projects are contained in Sections 31.5.4.1 and 31.5.4.2 of this Attachment Y, ~~and~~ (iii) Designated Public Policy Projects are contained in Section~~s~~ 31.5.5 ~~and 31.5.6~~ of this Attachment Y; and (iv) Designated Long-Term Transmission Projects are contained in Section 31.5.6 of this Attachment Y. The cost allocation principle and methodology applied for a Designated Reliability Transmission Project, Designated Economic Transmission Project, ~~or~~ Designated Public Policy Project, or Designated Long-Term Transmission Project (as applicable) in accordance with this Section 31.5 shall also apply to Designated Network Upgrade Facilities identified for the interconnection of such Designated Reliability Transmission Project, Designated Economic Transmission Project, ~~or a~~ Designated Public Policy Project, or Designated Long-Term Transmission Project in accordance with Attachment P.

31.5.1.2 Market-Based Responses

The cost allocation principles and methodologies in this Attachment Y do not apply to market-based solutions to Reliability Needs, to market-based responses to congestion identified in the Economic Planning Process, ~~or~~ to Other Public Policy Projects, or to Other Long-Term

Projects. The cost of a market-based project shall be the responsibility of the developer of that project.

31.5.1.3 Interconnection Cost Allocation

The cost allocation principles and methodologies in this Attachment Y do not apply to the interconnection costs of generation projects and Merchant Transmission Facilities. Interconnection costs are determined and allocated in accordance with Attachments P, S, X, Z, or HH of the ISO OATT. Cost related to the deliverability of a resource will be addressed, as applicable, under the ISO's deliverability procedures in Attachments S or HH of the ISO OATT.

31.5.1.4 Individual Transmission Service Requests

The cost allocation principles and methodologies in this Attachment Y do not apply to the cost of transmission expansion projects undertaken in connection with an individual request for Transmission Service. The cost of such a project is determined and allocated in accordance with Section 3.7 or Section 4.5 of the ISO OATT.

31.5.1.5 LTP Facilities

The cost allocation principles and methodologies in this Attachment Y do not apply to the cost of transmission projects included in LTPs or LTP updates. Each Transmission Owner will recover the cost of such transmission projects in accordance with its then existing rate recovery mechanisms.

31.5.1.6 Regulated Non-Transmission Projects

Costs related to regulated non-transmission projects will be recovered by Responsible Transmission Owners, Transmission Owners and Other Developers in accordance with the provisions of New York Public Service Law, New York Public Authorities Law, or other

applicable state law. Nothing in this section shall affect the Commission's jurisdiction over the sale and transmission of electric energy subject to the jurisdiction of the Commission.

31.5.1.7 Eligibility for Cost Allocation and Cost Recovery

Any entity, whether a Responsible Transmission Owner, Other Developer, or Transmission Owner, shall be eligible for cost allocation and cost recovery as set forth in Section 31.5 of this Attachment Y and Rate Schedule 10 of the ISO OATT for: (i) a Designated Reliability Transmission Project, a Designated Economic Transmission Project, ~~or~~ a Designated Public Policy Project, or a Designated Long-Term Transmission Project that are determined by the ISO to be eligible under Sections 31.2, 31.3, ~~or~~ 31.4, or 31.6, as applicable, and (ii) any Designated Network Upgrade Facilities identified for the interconnection of a Designated Reliability Transmission Project, Designated Economic Transmission Project, ~~or a~~ Designated Public Policy Project, or Designated Long-Term Transmission Project in accordance with Attachment P (as applicable). Interregional Transmission Projects identified in accordance with the Interregional Planning Protocol, and that have been accepted in each region's planning process, shall be eligible for interregional cost allocation and cost recovery, as set forth in Section 31.5 of this Attachment Y and Rate Schedule 10 of the ISO OATT. The ISO's share of the cost of an Interregional Transmission Project selected pursuant to this Attachment Y to meet a Reliability Need, constraint(s) on the BPTFs identified in the Economic Planning Process, or a Public Policy Transmission Need shall be eligible for cost allocation consistent with the cost allocation methodology applicable to the type of regional transmission project that would be replaced through the construction of such Interregional Transmission Project.

31.5.2 Cost Allocation Principles Required Under Order Nos. 1000 and 1920

31.5.2.1 In compliance with Commission Order No. 1000, the ISO shall implement the specific cost allocation methodologies~~y~~ in Sections 31.5.3.2, 31.5.4.4, and 31.5.5.4 in accordance with the ~~following~~ Regional Cost Allocation Principles set forth below ("Order No. 1000 Regional Cost Allocation Principles"). In compliance with Commission Order No. 1920, the ISO shall implement the specific cost allocation methodology in Section 31.5.6.4 in accordance with the Order No. 1000 Regional Cost Allocation Principles 1 through 5.~~:~~

Regional Cost Allocation Principle 1: The ISO shall allocate the cost of transmission facilities to those within the transmission planning region that benefit from those facilities in a manner that is at least roughly commensurate with estimated benefits. In determining the beneficiaries of transmission facilities, the ISO's CSPP will consider benefits including, but not limited to, the extent to which transmission facilities, individually or in the aggregate provide for maintaining reliability and sharing reserves, production cost savings and congestion relief, ~~and/or~~ meeting Public Policy Requirements, and/or meeting Long-Term Transmission Needs.

Regional Cost Allocation Principle 2: The ISO shall not involuntarily allocate any of the costs of transmission facilities to those that receive no benefit from transmission facilities.

Regional Cost Allocation Principle 3: In the event that the ISO adopts a benefit to cost threshold in its CSPP to determine which transmission facilities have sufficient net benefits to be selected in a regional transmission plan for the purpose of cost allocation, such benefit to cost threshold will not be so high that

transmission facilities with significant positive net benefits are excluded from cost allocation. If the ISO chooses to adopt such a threshold in its CSPP it will not include a ratio of benefits to costs that exceeds 1.25 unless the ISO justifies and the Commission approves a higher ratio.

Regional Cost Allocation Principle 4: The ISO's allocation method for the cost of a transmission facility selected pursuant to the process in the CSPP shall allocate costs solely within the ISO's transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs. Costs for an Interregional Transmission Project must be assigned only to regions in which the facility is physically located. Costs cannot be assigned involuntarily to another region. The ISO shall not bear the costs of required upgrades in another region.

Regional Cost Allocation Principle 5: The ISO's cost allocation method and data requirements for determining benefits and identifying beneficiaries for a transmission facility shall be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed transmission facility, as consistent with confidentiality requirements set forth in this Attachment Y and the ISO Code of Conduct in Attachment F of the OATT.

Regional Cost Allocation Principle 6: The ISO's CSPP provides a different cost allocation method for different types of transmission facilities in the regional transmission plan and each cost allocation method is set out clearly and explained in detail in this Section 31.5.

31.5.2.2 In compliance with Commission Order No. 1000, the ISO shall implement the specific cost allocation methodology in Section 31.5.8~~7~~ of this Attachment Y in accordance with the following Interregional Cost Allocation Principles:

Interregional Cost Allocation Principle 1: The ISO shall allocate the cost of new Interregional Transmission Projects to each region in which an Interregional Transmission Project is located in a manner that is at least roughly commensurate with estimated benefits of the Interregional Transmission Project in each of the regions. In determining the beneficiaries of Interregional Transmission Projects, the ISO will consider benefits including, but not limited to, those associated with maintaining reliability and sharing reserves, production cost savings and congestion relief, and meeting Public Policy Requirements.

Interregional Cost Allocation Principle 2: The ISO shall not involuntarily allocate any of the costs of an Interregional Transmission Project to a region that receives no benefit from an Interregional Transmission Project that is located in that region, either at present or in a likely future scenario.

Interregional Cost Allocation Principle 3: In the event that the ISO adopts a benefit-cost threshold ratio to determine whether an Interregional Transmission Project has sufficient net benefits to qualify for interregional cost allocation, this ratio shall not be so large as to exclude an Interregional Transmission Project with significant positive net benefits from cost allocation. If the ISO chooses to adopt such a threshold, they will not include a ratio of benefits to costs that exceeds 1.25 unless the Parties justify and the Commission approves a higher ratio.

Interregional Cost Allocation Principle 4: The ISO's allocation of costs for an Interregional Transmission Project shall be assigned only to regions in which the Interregional Transmission Project is located. The ISO shall not assign costs involuntarily to a region in which that Interregional Transmission Project is not located. The ISO shall, however, identify consequences for other regions, such as upgrades that may be required in a third region. The ISO's interregional cost allocation methodology includes provisions for allocating the costs of upgrades among the beneficiaries in the region in which the Interregional Transmission Project is located to the transmission providers in such region that agree to bear the costs associated with such upgrades.

Interregional Cost Allocation Principle 5: The ISO's cost allocation methodology and data requirements for determining benefits and identifying beneficiaries for an Interregional Transmission Project shall be transparent with adequate documentation to allow a stakeholder to determine how they were applied to a proposed Interregional Transmission Project, as consistent with the confidentiality requirements set forth in this Attachment Y and the ISO Code of Conduct in Attachment F of the OATT.

Interregional Cost Allocation Principle 6: Though Order No. 1000 allows the ISO to provide a different cost allocation methodology for different types of interregional transmission facilities, such as facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements, the ISO has chosen to adopt one interregional cost allocation methodology for all Interregional Transmission Planning Projects. The interregional cost allocation methodology is

set out clearly and explained in detail in Section 31.5.87 of this Attachment Y. The share of the cost related to any Interregional Transmission Project assigned to the ISO shall be allocated as described in Section 31.5.87.1.

31.5.3 Regulated Responses to Reliability Needs

31.5.3.1 Cost Allocation Principles

The ISO shall implement the specific cost allocation methodology in Section 31.5.3.2 of this Attachment Y in accordance with the Order No. 1000 Regional Cost Allocation Principles as set forth in Section 31.5.2.1. This methodology shall apply to cost allocation for a regulated transmission solution to a Reliability Need, including all Designated Reliability Transmission Projects making up such solution, identified in the Reliability Planning Process, including the ISO's share of the costs of an Interregional Transmission Project proposed as a regulated transmission solution to a Reliability Need identified in the Reliability Planning Process allocated in accordance with Section 31.5.87 of this Attachment Y. The cost allocation methodology that is applied to a regulated transmission solution to a Reliability Need shall also apply to Designated Network Upgrade Facilities identified for the interconnection of the regulated transmission solution in accordance with Attachment P.

The specific cost allocation methodology in Section 31.5.3.2 incorporates the following elements:

31.5.3.1.1 The focus of the cost allocation methodology shall be on solutions to Reliability Needs.

31.5.3.1.2 Potential impacts unrelated to addressing the Reliability Needs shall not be considered for the purpose of cost allocation for regulated solutions.

31.5.3.1.3 Primary beneficiaries shall initially be those Load Zones or Subzones identified as contributing to the reliability violation.

31.5.3.1.4 The cost allocation among primary beneficiaries shall be based upon their relative contribution to the need for the regulated solution.

31.5.3.1.5 The ISO will examine the development of specific cost allocation rules based on the nature of the reliability violation (*e.g.*, thermal overload, voltage, stability, resource adequacy and short circuit).

31.5.3.1.6 Cost allocation shall recognize the terms of prior agreements among the Transmission Owners, if applicable.

31.5.3.1.7 Consideration should be given to the use of a materiality threshold for cost allocation purposes.

31.5.3.1.8 The methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible.

31.5.3.1.9 Consideration should be given to the "free rider" issue as appropriate. The methodology shall be fair and equitable.

31.5.3.1.10 The methodology shall provide cost recovery certainty to investors to the extent possible.

31.5.3.1.11 The methodology shall apply, to the extent possible, to Gap Solutions.

31.5.3.1.12 Cost allocation is independent of the actual triggered project(s), except when allocating cost responsibilities associated with meeting a Locational Minimum Installed Capacity Requirement ("LCR"), and is based on a separate process that results in NYCA meeting its LOLE requirement.

31.5.3.1.13 Cost allocation for a solution that meets the needs of a Target Year assumes that backstop solutions of prior years have been implemented.

31.5.3.1.14 Cost allocation will consider the most recent values for LCRs. LCRs must be met for the Target Year.

31.5.3.2 Cost Allocation Methodology

The cost allocation mechanism under this Section 31.5.3.2 sets forth the basis for allocating costs associated with a Responsible Transmission Owner's regulated backstop transmission solution or an Other Developer's or Transmission Owner's alternative regulated transmission solution selected by the ISO as the more efficient or cost-effective transmission solution to a Reliability Need identified in the Reliability Planning Process. The same cost allocation methodology set forth in this Section 31.5.3.2 shall apply to (i) the Designated Reliability Transmission Project(s) that comprise the regulated transmission solution and (ii) the Designated Network Upgrade Facilities identified for the interconnection of such Designated Reliability Transmission Project(s) in accordance with Attachment P.

The formula is not applicable to that portion of a project beyond the size of the solution needed to provide the more efficient or cost-effective solution appropriate to the Reliability Need identified in the RNA. Nor is the formula applicable to that portion of the cost of a regulated transmission reliability solution that is, pursuant to, as applicable, Section 25.7.12 of Attachment S or Section 40.13.12 to Attachment HH to the ISO OATT, paid for with funds previously committed by or collected from Interconnection Customer(s) for the installation of System Deliverability Upgrades required for the interconnection of generation projects, Class Year Transmission Projects, or Cluster Study Transmission Projects.

This Section 31.5.3.2 establishes the allocation of the costs related to resolving Reliability Needs resulting from resource adequacy, BPTF thermal transmission security, BPTF voltage security, dynamic stability, and short circuit issues. Costs will be allocated in accordance with the following hierarchy: (i) resource adequacy pursuant to Section 31.5.3.2.1, (ii) BPTF thermal transmission security pursuant to Section 31.5.3.2.2, (iii) BPTF voltage security pursuant to Section 31.5.3.2.3, (iv) dynamic stability pursuant to Section 31.5.3.2.4, and (v) short circuit pursuant to Section 31.5.3.2.5.

31.5.3.2.1 Resource Adequacy Reliability Solution Cost Allocation Formula

For purposes of solutions eligible for cost allocation under this Section 31.5.3.2, this section sets forth the cost allocation methodology applicable to that portion of the costs of the solution attributable to resolving resource adequacy. The same cost allocation formula is applied regardless of the project or sets of projects being triggered; however, the nature of the solution set may lead to some terms equaling zero, thereby dropping out of the equation. To ensure that appropriate allocation to the LCR and non-LCR zones occurs, the zonal allocation percentages are developed through a series of steps that first identify responsibility for LCR deficiencies, followed by responsibility for remaining need. The following formula shall apply to the allocation of the costs of the solution attributable to resource adequacy:

$$\text{Resource Adequacy Cost Allocation}_i = \left[\frac{\text{LCRdef}_i}{\text{Soln Size}} + \left(\frac{\text{Concident Peak}_i}{\sum_{k=1}^{n} \text{Coincident Peak}_k * (} * \frac{\text{Soln STWdef}}{\text{Soln Size}} \right) + \left(\frac{\text{Concident Peak}_i}{\sum_{l=1}^{m} \text{Coincident Peak}_l * (1} * \frac{\text{Soln Cldef}}{\text{Soln Size}} \right) \right] * 100\%$$

Where *i* is for each applicable zone, *n* represent the total zones in NYCA, *m* represents the zones isolated by the binding interfaces, IRM is the statewide reserve margin, and where LCR is defined as the locational capacity requirement in terms of percentage and is equal to zero for those zones without an LCR requirement, $LCRdef_i$ is the applicable zonal LCR deficiency, SolnSTWdef is the STWdef for each applicable project, SolnCIdef is the CIdef for each applicable project, and Soln_Size represents the total compensatory MW addressed by each applicable project for all reliability cost allocation steps in this Section 31.5.3.2.

Three step cost allocation methodology for regulated reliability solutions:

31.5.3.2.1.1 Step 1 - LCR Deficiency

31.5.3.2.1.1.1 Any deficiencies in meeting the LCRs for the Target Year will be referred to as the LCRdef. If the reliability criterion is met once the LCR deficiencies have been addressed, that is LOLE ≤ 0.1 for the Target Year is achieved, then the only costs allocated will be those related to the LCRdef MW. Cost responsibility for the LCRdef MW will be borne by each deficient locational zone(s), to the extent each is individually deficient.

For a single solution that addresses only an LCR deficiency in the applicable LCR zone, the equation would reduce to:

$$\text{Allocation}_i = \frac{\text{LCRdef}_i}{\text{Soln\_Size}} * 100\%$$

Where *i* is for each applicable LCR zone, $LCRdef_i$ represents the applicable zonal LCR deficiency, and Soln_Size represents the total compensatory MW addressed by the applicable project.

31.5.3.2.1.1.2 Prior to the LOLE calculation, voltage constrained interfaces will be recalculated to determine the resulting transfer limits when the LCRdef MW are added.

31.5.3.2.1.2 Step 2 - Statewide Resource Deficiency. If the reliability criterion is not met after the LCRdef has been addressed, that is an LOLE > 0.1, then a NYCA Free Flow Test will be conducted to determine if NYCA has sufficient resources to meet an LOLE of 0.1.

31.5.3.2.1.2.1 If NYCA is found to be resource limited, the ISO, using the transfer limits and resources determined in Step 1, will determine the optimal distribution of additional resources to achieve a reduction in the NYCA LOLE to 0.1.

31.5.3.2.1.2.2 Cost allocation for compensatory MW added for cost allocation purposes to achieve an LOLE of 0.1, defined as a Statewide MW deficiency (STWdef), will be prorated to all NYCA zones, based on the NYCA coincident peak load. The allocation to locational zones will take into account their locational requirements. For a single solution that addresses only a statewide deficiency, the equation would reduce to:

$$\text{Allocation}_i = \left[\frac{\text{Concident Peak}_i * (1 + \text{IRM} - \text{LCR}_\text{i})}{\sum_{k=1}^{n} \text{Coincident Peak}_k * (1 + \text{IRM} - \text{LCR}_\text{k})} * \frac{\text{Soln STWdef}}{\text{Soln Size}} \right] *100\%$$

Where *i* is for each applicable zone, *n* is for the total zones in NYCA, IRM is the statewide reserve margin, and LCR is defined as the locational capacity requirement in terms of percentage and is equal to zero for those zones without an LCR requirement, Soln STWdef is the STWdef for the applicable project, and

Soln_Size represents the total compensatory MW addressed by the applicable project.

31.5.3.2.1.3 Step 3 - Constrained Interface Deficiency. If the NYCA is not resource limited as determined by the NYCA Free Flow Test, then the ISO will examine constrained transmission interfaces, using the Binding Interface Test.

31.5.3.2.1.3.1 The ISO will provide output results of the reliability simulation program utilized for the RNA that indicate the hours that each interface is at limit in each flow direction, as well as the hours that coincide with a loss of load event. These values will be used as an initial indicator to determine the binding interfaces that are impacting LOLE within the NYCA.

31.5.3.2.1.3.2 The ISO will review the output of the reliability simulation program utilized for the RNA along with other applicable information that may be available to make the determination of the binding interfaces.

31.5.3.2.1.3.3 Bounded Regions are assigned cost responsibility for the compensatory MW, defined as CIdef, needed to reach an LOLE of 0.1.

31.5.3.2.1.3.4 If one or more Bounded Regions are isolated as a result of binding interfaces identified through the Binding Interface Test, the ISO will determine the optimal distribution of compensatory MW to achieve a NYCA LOLE of 0.1. Compensatory MW will be added until the required NYCA LOLE is achieved.

31.5.3.2.1.3.5 The Bounded Regions will be identified by the ISO's Binding Interface Test, which identifies the bounded interface limits that can be relieved and have the greatest impact on NYCA LOLE. The Bounded Region that will have the greatest benefit to NYCA LOLE will be the area to be first allocated costs in this

step. The ISO will determine if after the first addition of compensating MWs the Bounded Region with the greatest impact on LOLE has changed. During this iterative process, the Binding Interface Test will look across the state to identify the appropriate Bounded Region. Specifically, the Binding Interface Test will be applied starting from the interface that has the greatest benefit to LOLE (the greatest LOLE reduction per interface compensatory MW addition), and then extended to subsequent interfaces until a NYCA LOLE of 0.1 is achieved.

31.5.3.2.1.3.6 The CIdef MW are allocated to the applicable Bounded Region isolated as a result of the constrained interface limits, based on their NYCA coincident peaks. Allocation to locational zones will take into account their locational requirements. For a single solution that addresses only a binding interface deficiency, the equation would reduce to:

$$\text{Allocation}_i = \left[\frac{\text{Concident Peak}_i * (1 + \text{IRM} - \text{LCR}_\text{i})}{\sum_{l=1}^{m} \text{Coincident Peak}_l * (1 + \text{IRM} - \text{LCR}_\text{l})} * \frac{\text{SolnCIdef}}{\text{Soln Size}} \right] *100\%$$

Where *i* is for each applicable zone, *m* is for the zones isolated by the binding interfaces, IRM is the statewide reserve margin, and where LCR is defined as the locational capacity requirement in terms of percentage and is equal to zero for those zones without an LCR requirement, SolnCIdef is the CIdef for the applicable project and Soln_Size represents the total compensatory MW addressed by the applicable project.

31.5.3.2.2 BPTF Thermal Transmission Security Cost Allocation Formula

For purposes of solutions eligible for cost allocation under this Section 31.5.3.2, this section sets forth the cost allocation methodology applicable to that portion of the costs of the

solution attributable to resolving BPTF thermal transmission security issues. If, after consideration of the compensatory MW identified in the resource adequacy reliability solution cost allocation in accordance with Section 31.5.3.2.1, there remains a BPTF thermal transmission security issue, the ISO will allocate the costs of the portion of the solution attributable to resolving the BPTF thermal transmission security issue(s) to the Subzones that contribute to the BPTF thermal transmission security issue(s) in the following manner.

31.5.3.2.2.1 Calculation of Nodal Distribution Factors. The ISO will calculate the nodal distribution factor for each load bus modeled in the power flow case utilizing the output of the reliability simulation program that identified the Reliability Need, including the NYCA generation dispatch and NYCA coincident peak Load. The nodal distribution factor represents the percentage of the Load that flows across the facility subject to the Reliability Need. The sign (positive or negative) of the nodal distribution factor represents the direction of flow.

31.5.3.2.2.2 Calculation of Nodal Flow. The ISO will calculate the nodal megawatt flow, defined as Nodal Flow, for each load bus modeled in the power flow case by multiplying the amount of Load in megawatts for the bus, defined as Nodal Load, by the nodal distribution factor for the bus. Nodal Flow represents the number of megawatts that flow across the facility subject to the Reliability Need due to the Load.

31.5.3.2.2.3 Calculation of Contributing Load and Contributing Flow. The Nodal Load for a load bus with a positive nodal distribution factor is a contributing Load, defined as CLoad, and the Nodal Flow for that Load is contributing flow, defined as CFlow. To identify contributing Loads that have a material impact on

the Reliability Need, the ISO will calculate a contributing materiality threshold, defined as CMT, as follows:

$$CMT = \frac{\sum_{k=1}^{m}\sum_{Lk=1}^{n} CFlow_{Lk}}{\sum_{k=1}^{m}\sum_{Lk=1}^{n} CLoad_{Lk}}$$

Where *m* is for the total number of Subzones and *n* is for the total number of load buses in a given Subzone.

31.5.3.2.2.4 Calculation of Helping Load and Helping Flow. The Nodal Load for a load bus with a negative or zero nodal distribution factor is a helping Load, defined as HLoad, and the Nodal Flow for that Load is helping flow, defined as HFlow. To identify helping Loads that have a material impact on the Reliability Need, the ISO will calculate a helping materiality threshold, defined as HMT, as follows:

$$HMT = \frac{\sum_{k=1}^{m}\sum_{Lk=1}^{n} HFlow_{Lk}}{\sum_{k=1}^{m}\sum_{Lk=1}^{n} HLoad_{Lk}}$$

Where *m* is for the total number of Subzones and *n* is for the total number of load buses in a given Subzone.

31.5.3.2.2.5 Calculation of Net Material Flow for Each Subzone. The ISO will identify material Nodal Flow for each Subzone and calculate the net material flow for each Subzone. For each load bus, the Nodal Flow will be identified as material flow, defined as MFlow, if the nodal distribution factor is (i) greater than or equal to CMT, or (ii) less than or equal to HMT. The net material flow for each Subzone, defined as SZ_NetFlow, is calculated as follows:

$$SZ\_NetFlow_j = \sum_{Lj=1}^{n} MFlow_{Lj}$$

Where *j* is for each Subzone and *n* is for the total number of load buses in a given Subzone.

31.5.3.2.2.6 Identification of Allocated Flow for Each Subzone. The ISO will identify the allocated flow for each Subzone and verify that sufficient contributing flow is being allocated costs. For each Subzone, if the SZ_NetFlow is greater than zero, that Subzone has a net material contribution to the Reliability Need and the SZ_NetFlow is identified as allocated flow, defined as SZ_AllocFlow. If the SZ_NetFlow is less than or equal to zero, that Subzone does not have a net material contribution to the Reliability Need and the SZ_AllocFlow is zero for that Subzone. If the total SZ_AllocFlow for all Subzones is less than 60% of the total CFlow for all Subzones, then the CMT will be reduced and SZ_NetFlow recalculated until the total SZ_AllocFlow for all Subzones is at least 60% of the total CFlow for all Subzones.

31.5.3.2.2.7 Cost Allocation for a Single BPTF Thermal Transmission Security Issue. For a single solution that addresses only a BPTF thermal transmission security issue, the equation for cost allocation would reduce to:

$$BPTF\ Thermal\ Cost\ Alloction_j = \frac{SZ\_AllocFlow_j}{\sum_{k=1}^{m} SZ\_AllocFlow_k} \times \frac{SolnBTSdef}{Soln\_Size}$$

Where *j* is for each Subzone; *m* is for the total number of Subzones; SZ_AllocFlow is the allocated flow for each Subzone; SolnBTSdef is the number of compensatory MW for the BPTF thermal transmission security issue for the applicable project; and Soln_Size represents the total compensatory MW addressed by the applicable project.

31.5.3.2.2.8 Cost Allocation for Multiple BPTF Thermal Transmission Security Issues. If a single solution addresses multiple BPTF thermal transmission security issues, the ISO will calculate weighting factors based on the ratio of the present value of the estimated costs for individual solutions to each BPTF thermal transmission security issue. The present values of the estimated costs for the individual solutions shall be based on a common base date that will be the beginning of the calendar month in which the cost allocation analysis is performed (the "Base Date"). The ISO will apply the weighting factors to the cost allocation calculated for each Subzone for each individual BPTF thermal transmission security issue. The following example illustrates the cost allocation for such a solution:

- A cost allocation analysis for the selected solution is to be performed during a given month establishing the beginning of that month as the Base Date.
- The ISO has identified two BPTF thermal transmission security issues, Overload X and Overload Y, and the ISO has selected a single solution (Project Z) to address both BPTF thermal transmission security issues.
- The cost of a solution to address only Overload X (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).
- The cost of a solution to address only Overload Y (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).
- The discount rate, D, to be used for the present value analysis shall be the current after-tax weighted average cost of capital for the Transmission Owners.

- Based on the foregoing assumptions, the following formulas will be used:
  - Present Value of Cost (X) = PV Cost (X) = Cost (X) / $(1+D)^{N(X)}$
  - Present Value of Cost (Y) = PV Cost (Y) = Cost (Y) / $(1+D)^{N(Y)}$
  - Overload X weighting factor = PV Cost (X)/[PV Cost (X) + PV Cost (Y)]
  - Overload Y weighting factor = PV Cost (Y)/[PV Cost (X) + PV Cost (Y)]
- Applying those formulas, if:

  Cost (X) = $100 Million and N(X) = 6.25 years

  Cost (Y) = $25 Million and N(Y) = 4.75 years

  D = 7.5% per year

  Then:

  PV Cost (X) = $100/(1+0.075)^{6.25}$ = 63.635 Million

  PV Cost (Y) = $25/(1+0.075)^{4.75}$ = 17.732 Million

  Overload X weighting factor = 63.635 / (63.635 + 17.732) = 78.21%

  Overload Y weighting factor = 17.732 / (63.635 + 17.732) = 21.79%
- Applying those weighing factors, if:

  Subzone A cost allocation for Overload X is 15%

  Subzone A cost allocation for Overload Y is 70%

  Then:

  Subzone A cost allocation % for Project Z =

  (15% * 78.21%) + (70% * 21.79%) = 26.99%

31.5.3.2.2.9 Exclusion of Subzone(s) Based on De Minimis Impact. If a Subzone is assigned a BPTF thermal transmission security cost allocation less than a *de minimis* dollar threshold of the total project costs, that Subzone will not be

allocated costs; *provided however,* that the total *de minimis* Subzones may not exceed 10% of the total BPTF thermal transmission security cost allocation. The *de minimis* threshold is initially $10,000. If the total allocation percentage of all *de minimis* Subzones is greater than 10%, then the *de minimis* threshold will be reduced until the total allocation percentage of all *de minimis* Subzones is less than or equal to 10%.

31.5.3.2.3 BPTF Voltage Security Cost Allocation

If, after consideration of the compensatory MW identified in the resource adequacy cost allocation in accordance with Section 31.5.3.2.1 and BPTF thermal transmission security cost allocation in accordance with Section 31.5.3.2.2, there remains a BPTF voltage security issue, the ISO will allocate the costs of the portion of the solution attributable to resolving the BPTF voltage security issue(s) to the Subzones that contribute to the BPTF voltage security issue(s). The cost responsibility for the portion (MW or MVAr) of the solution attributable to resolving the BPTF voltage security issue(s), defined as SolnBVSdef, will be allocated on a Load-ratio share to each Subzone to which each bus with a voltage issue is connected, as follows:

$$BPTF\ Voltage\ Cost\ Alloction_j = \frac{Coincident\ Peak_j}{\sum_{k=1}^{m} Coincident\ Peak_k} \times \frac{SolnBVSdef}{Soln\_Size}$$

Where *j* is for each Subzone; *m* is for the total number of Subzones that are subject to BPTF voltage cost allocation; Coincident Peak is for the total peak Load for each Subzone; SolnBVSdef is for the portion of the solution necessary to resolve the BPTF voltage security issue(s); and Soln_Size represents the total compensatory MW addressed by the applicable project.

31.5.3.2.4 Dynamic Stability Cost Allocation

If, after consideration of the compensatory MW identified in the resource adequacy cost allocation in accordance with Section 31.5.3.2.1, BPTF thermal transmission security cost allocation in accordance with Section 31.5.3.2.2, and BPTF voltage security cost allocation in accordance with Section 31.5.3.2.3, there remains a dynamic stability issue, the ISO will allocate the costs of the portion of the solution attributable to resolving the dynamic stability issue(s) to all Subzones in the NYCA on a Load-ratio share basis, as follows:

$$Dynamic\ Stability\ Cost\ Alloction_j = \frac{Coincident\ Peak_j}{\sum_{k=1}^{m} Coincident\ Peak_k} \times \frac{DynamicMW}{Soln\_Size}$$

Where *j* is for each Subzone; *m* is for the total number of Subzones; Coincident Peak is for the total peak Load for each Subzone; DynamicMW is for the megawatt portion of the solution necessary to resolve the dynamic stability issue(s) for the applicable project; and Soln_Size represents the total compensatory MW addressed by the applicable project.

31.5.3.2.5 Short Circuit Issues

If, after the completion of the prior reliability cost allocation steps, there remains a short circuit issue, the short circuit issue will be deemed a local issue and related costs will not be allocated under this process.

31.5.4 Regulated Economic Transmission Projects

31.5.4.1 The Scope of Section 31.5.4

As discussed in Section 31.5.1 of this Attachment Y, the cost allocation principles and methodologies of this Section 31.5.4 apply only to (i) Regulated Economic Transmission Projects proposed in response to constraint(s) on the BPTFs identified in the System & Resource Outlook pursuant to, as applicable, Section 31.3.1 or Section 31.6~~Economic Planning Process~~

and studied in Economic Transmission Project Evaluations and (ii) Designated Network Upgrade Facilities identified for the interconnection of a Regulated Economic Transmission Project in accordance with Attachment P.

This Section 31.5.4 does not apply to generation or demand side management projects, nor does it apply to any market-based projects. This Section 31.5.4 does not apply to regulated solutions triggered by the ISO pursuant to the CSPP, provided, however, the cost allocation principles and methodologies in this Section 31.5.4 will apply to regulated solutions when the implementation of the regulated solution is accelerated solely to reduce congestion in earlier years of the Study Period. The ISO will work with the ESPWG to develop procedures to deal with the acceleration of regulated solutions for economic reasons.

Nothing in this Attachment Y mandates the implementation of any Regulated Economic Transmission Project studied in an Economic Transmission Project Evaluation; however, if a Regulated Economic Transmission Project is approved by the identified beneficiaries pursuant to Section 31.5.4.6 of this Attachment Y, the Designated Entity(ies) will enter into a Development Agreement for purposes of constructing and placing the Designated Economic Transmission Project(s) in service in accordance with the requirements in Section 31.3.2.6.2 of this Attachment Y.

31.5.4.2 Cost Allocation Principles

The ISO shall implement the specific cost allocation methodology in Section 31.5.4.4 of this Attachment Y in accordance with the Order No. 1000 Regional Cost Allocation Principles as set forth in Section 31.5.2.1. The specific cost allocation methodology in Section 31.5.4.4 incorporates the following elements:

31.5.4.2.1 The focus of the cost allocation methodology shall be on responses to specific conditions identified in the System & Resource Outlook pursuant to, as applicable, Section 31.3.1 or Section 31.6 ~~Economic Planning Process~~.

31.5.4.2.2 Potential impacts unrelated to addressing the identified congestion shall not be considered for the purpose of cost allocation for Regulated Economic Transmission Projects or Designated Network Upgrade Facilities identified for the interconnection of such Regulated Economic Transmission Project in accordance with Attachment P to the ISO OATT (if applicable).

31.5.4.2.3 Projects analyzed hereunder as proposed Regulated Economic Transmission Projects may proceed on a market basis with willing buyers and sellers at any time.

31.5.4.2.4 Cost allocation shall be based upon a beneficiaries pay approach. Cost allocation under the ISO Tariffs for a Regulated Economic Transmission Project and Designated Network Upgrade Facilities identified for the interconnection of such Regulated Economic Transmission Project in accordance with Attachment P to the ISO OATT (if applicable) shall be applicable only when a super majority of the beneficiaries of the project, as defined in Section 31.5.4.6 of this Attachment Y, vote to support the project.

31.5.4.2.5 Beneficiaries of a Regulated Economic Transmission Project shall be those entities economically benefiting from the proposed project. The cost allocation among beneficiaries shall be based upon their relative economic benefit.

31.5.4.2.6 Consideration shall be given to the proposed project's payback period.

31.5.4.2.7 The cost allocation methodology shall address the possibility of cost overruns.

31.5.4.2.8 Consideration shall be given to the use of a materiality threshold for cost allocation purposes.

31.5.4.2.9 The methodology shall provide for ease of implementation and administration to minimize debate and delays to the extent possible.

31.5.4.2.10 Consideration should be given to the "free rider" issue as appropriate. The methodology shall be fair and equitable.

31.5.4.2.11 The methodology shall provide cost recovery certainty to investors to the extent possible.

31.5.4.2.12 Benefits determination shall consider various perspectives, based upon the agreed-upon metrics for analyzing congestion.

31.5.4.2.13 Benefits determination shall account for future uncertainties as appropriate (e.g., load forecasts, fuel prices, environmental regulations).

31.5.4.2.14 Benefits determination shall consider non-quantifiable benefits as appropriate (*e.g.,* system operation, environmental effects, renewable integration).

31.5.4.3 Project Eligibility for Cost Allocation

The methodologies in this Section 31.5.4.3 will be used to determine the eligibility of a proposed Regulated Economic Transmission Project to have its cost allocated and recovered pursuant to the provisions of this Attachment Y.

31.5.4.3.1 The ISO will evaluate the benefits against the costs (as provided by the Developer) of each proposed Regulated Economic Transmission Project studied in an Economic Transmission Project Evaluation over a ten-year period

commencing with the proposed in-service date for the project. The Developer of each Regulated Economic Transmission Project will pay the cost incurred by the ISO to conduct the ten-year benefit/cost analysis of its project in the Economic Transmission Project Evaluation.

31.5.4.3.2 The benefit metric for eligibility under the ISO's benefit/cost analysis will be expressed as the present value of the annual NYCA-wide production cost savings that would result from the implementation of the proposed Regulated Economic Transmission Project, measured for the first ten years from the proposed in-service date for the project.

31.5.4.3.3 The cost for the ISO's benefit/cost analysis will be supplied by the Developer of the project, including any updates to the cost that represent a reasonable estimation of the cost of Economic Transmission Upgrades and that are submitted in accordance with Section 31.3.2.3.7 of this Attachment Y, and the cost metric for eligibility will be expressed as the present value of the first ten years of annual total revenue requirements for the project, reasonably allocated over the first ten years from the proposed in-service date for the project.

31.5.4.3.4 For informational purposes only, the ISO will also calculate the present value of the annual total revenue requirement for the project over a 30-year period commencing with the proposed in-service date of the project.

31.5.4.3.5 To be eligible for cost allocation and recovery under this Attachment Y, the benefit of the proposed Regulated Economic Transmission Project must exceed its cost measured over the first ten years from the proposed in-service date for the project, and the requirements of Section 31.5.4.2 must be met. The total

capital cost of the project must exceed $25 million. In addition, a super-majority of the beneficiaries must vote in favor of the project, as specified in Section 31.5.4.6 of this Attachment Y.

31.5.4.3.6 In addition to calculating the benefit metric as defined in Section 31.5.4.3.2, the ISO will calculate additional metrics to estimate the potential benefits of the proposed Regulated Economic Transmission Project in the Economic Transmission Project Evaluation, for information purposes only, in accordance with Section 31.3.1.3.5, for the applicable metric. These additional metrics may include those that measure reductions in LBMP load costs, changes to generator payments, ICAP costs, Ancillary Service costs, emissions costs, losses, and energy deliverability. TCC revenues will be determined in accordance with Section 31.5.4.4.2.3. The ISO will provide information on these additional metrics to the maximum extent practicable considering its overall resource commitments.

31.5.4.3.7 In addition to the benefit/cost analysis performed by the ISO under this Section 31.5.4.3, the ISO will work with the ESPWG to consider the development and implementation of scenario analyses, for information only, that shed additional light on the benefit/cost analysis of a proposed project. These additional scenario analyses may cover fuel and load forecast uncertainty, emissions data and the cost of allowances, pending environmental or other regulations, alternate resource and energy efficiency scenarios, and variances in the cost of Economic Transmission Upgrades. Consideration of these additional scenarios will take into account the resource commitments of the ISO.

31.5.4.4 Cost Allocation for Eligible Projects

As noted in Section 31.5.4.2 of this Attachment Y, the cost of a Regulated Economic Transmission Project will be allocated to those entities that would economically benefit from implementation of the proposed project. This methodology shall apply to cost allocation for a Regulated Economic Transmission Project, including the ISO's share of the costs of an Interregional Transmission Project proposed as a Regulated Economic Transmission Project allocated in accordance with Section 31.5.8~~7~~ of this Attachment Y, and Designated Network Upgrade Facilities identified for the interconnection of the Regulated Economic Transmission Project in accordance with Attachment P.

31.5.4.4.1 The ISO will identify the beneficiaries of the proposed project over a ten-year time period commencing with the proposed in-service date for the project.

31.5.4.4.2 The ISO will identify beneficiaries of a proposed project as follows:

31.5.4.4.2.1 The ISO will measure the present value of the annual zonal LBMP load savings for all Load Zones which would have a load savings, net of reductions in TCC revenues, and net of reductions from bilateral contracts (based on available information provided by Load Serving Entities to the ISO as set forth in subsection 31.5.4.4.2.5 below) as a result of the implementation of the proposed project. For purposes of this calculation, the present value of the load savings will be equal to the sum of the present value of the Load Zone's load savings for each year over the ten-year period commencing with the project's in-service date. The load savings for a Load Zone will be equal to the difference between the zonal LBMP load cost without the project and the LBMP load cost with the project, net of reductions in TCC revenues and net of reductions from bilateral contracts.

31.5.4.4.2.2 The beneficiaries will be those Load Zones that experience net benefits measured over the first ten years from the proposed in-service date for the project. If the sum of the zonal benefits for those Load Zones with load savings is greater than the revenue requirements for the project (both load savings and revenue requirements measured in present value over the first ten years from the in-service date of the project), the ISO will proceed with the development of the zonal cost allocation information to inform the beneficiary voting process.

31.5.4.4.2.3 Reductions in TCC revenues will reflect the forecasted impact of the project on TCC auction revenues and day-ahead residual congestion rents allocated to load in each zone, not including the congestion rents that accrue to any Incremental TCCs that may be made feasible as a result of this project. This impact will include forecasts of: (1) the total impact of that project on the Transmission Service Charge offset applicable to loads in each zone (which may vary for loads in a given zone that are in different Transmission Districts); (2) the total impact of that project on the NYPA Transmission Adjustment Charge offset applicable to loads in that zone; and (3) the total impact of that project on payments made to LSEs serving load in that zone that hold Grandfathered Rights or Grandfathered TCCs, to the extent that these have not been taken into account in the calculation of item (1) above. These forecasts shall be performed using the procedure described in Appendix B to this Attachment Y.

31.5.4.4.2.4 Estimated TCC revenues from any Incremental TCCs created by a proposed Regulated Economic Transmission Project over the ten-year period

commencing with the project's in-service date will be added to the Net Load Savings used for the cost allocation and beneficiary determination.

31.5.4.4.2.5 The ISO will solicit bilateral contract information from all Load Serving Entities, which will provide the ISO with bilateral energy contract data for modeling contracts that do not receive benefits, in whole or in part, from LBMP reductions, and for which the time period covered by the contract is within the ten-year period beginning with the in-service date of the project. Bilateral contract payment information that is not provided to the ISO will not be included in the calculation of the present value of the annual zonal LBMP savings in section 31.5.4.4.2.1 above.

31.5.4.4.2.5.1 All bilateral contract information submitted to the ISO must identify the source of the contract information, including citations to any public documents including but not limited to annual reports or regulatory filings

31.5.4.4.2.5.2 All non-public bilateral contract information will be protected in accordance with the ISO's Code of Conduct, as set forth in Section 12.4 of Attachment F of the ISO OATT, and Section 6 of the ISO Services Tariff.

31.5.4.4.2.5.3 All bilateral contract information and information on LSE-owned generation submitted to the ISO must include the following information:

(1) Contract quantities on an annual basis:

(a) For non-generator specific contracts, the Energy (in MWh) contracted to serve each Zone for each year.

(b) For generator specific contracts or LSE-owned generation, the name of the generator(s) and the MW or percentage output contracted or self-owned for use by Load in each Zone for each year.

(2) For all Load Serving Entities serving Load in more than one Load Zone, the quantity (in MWh or percentage) of bilateral contract Energy to be applied to each Zone, by year over the term of the contract.

(3) Start and end dates of the contract.

(4) Terms in sufficient detail to determine that either pricing is not indexed to LBMP, or, if pricing is indexed to LBMP, the manner in which prices are connected to LBMP.

(5) Identify any changes in the pricing methodology on an annual basis over the term of the contract.

31.5.4.4.2.5.4 Bilateral contract and LSE-owned generation information will be used to calculate the adjusted LBMP savings for each Load Zone as follows:

AdjLBMPS$_{y,z}$, the adjusted LBMP savings for each Load Zone *z* in each year *y*, shall be calculated using the following equation:

$$AdjLBMPS_{y,z} = \max\left[0, TL_{\mathrm{y,z}} - \sum_{b \in B_{y,z}} \left(BCL_{\mathrm{b,y,z}} * \left(1 - Ind_{\mathrm{b,y,z}}\right)\right) - SG_{\mathrm{y,z}}\right] * \left(LBMP1_{\mathrm{y,z}} - LBMP2_{\mathrm{y,z}}\right)$$

Where:

TL$_{y,z}$ is the total annual amount of Energy forecasted to be consumed by Load in year *y* in Load Zone *z*;

$B_{y,z}$ is the set of blocks of Energy to serve Load in Load Zone *z* in year *y* that are sold under bilateral contracts for which information has been provided to the ISO that meets the requirements set forth elsewhere in this Section 31.5.4.4.2.5

$BCL_{b,y,z}$ is the total annual amount of Energy sold into Load Zone *z* in year *y* under bilateral contract block *b*;

$Ind_{b,y,z}$ is the ratio of (1) the increase in the amount paid by the purchaser of Energy, under bilateral contract block *b*, as a result of an increase in the LBMP in Load Zone *z* in year *y* to (2) the increase in the amount that a purchaser of that amount of Energy would pay if the purchaser paid the LBMP for that Load Zone in that year for all of that Energy (this ratio shall be zero for any bilateral contract block of Energy that is sold at a fixed price or for which the cost of Energy purchased under that contract otherwise insensitive to the LBMP in Load Zone *z* in year *y*);

$SG_{y,z}$ is the total annual amount of Energy in Load Zone *z* that is forecasted to be served by LSE-owned generation in that Zone in year *y*;

LBMP1y,z is the forecasted *annual load-weighted average LBMP* for Load Zone *z* in year *y*, calculated under the assumption that the project is not in place; and

$LBMP2_{y,z}$ is the forecasted annual load-weighted average LBMP for Load Zone *z* in year *y*, calculated under the assumption that the project is in place.

31.5.4.4.2.6 NZS_z, the Net Zonal Savings for each Load Zone *z* resulting from a given project, shall be calculated using the following equation:

$$NZS_z = \max\left[0, \sum_{y=PS}^{PS+9} \left(\left(AdjLBMPS_{\mathrm{y,\,z}} - TCCRevImpact_{\mathrm{y,\,z}}\right) * DF_{\mathrm{y}}\right)\right]$$

Where:

PS is the year in which the project is expected to enter commercial operation;

$AdjLBMPS_{y,z}$ is as calculated in Section 31.5.4.4.2.5;

$TCCRevImpact_{y,z}$ is the forecasted impact of TCC revenues allocated to Load Zone *z* in year *y*, calculated using the procedure described in Appendix B in Section 31.7 of this Attachment Y; and

DF_y is the discount factor applied to cash flows in year *y* to determine the present value of that cash flow in year *PS*.

31.5.4.4.3 Load Zones not benefiting from a proposed Regulated Economic Transmission Project will not be allocated any of the costs of the project under this Attachment Y. There will be no "make whole" payments to non-beneficiaries.

31.5.4.4.4 Costs of a project will be allocated to beneficiaries as follows:

31.5.4.4.4.1 The ISO will allocate the cost of the Regulated Economic Transmission Project based on the zonal share of total savings to the Load Zones determined pursuant to Section 31.5.4.4.2 to be beneficiaries of the proposed project. Total savings will be equal to the sum of load savings for each Load Zone that experiences net benefits pursuant to Section 31.5.4.4.2. A Load Zone's cost allocation will be equal to the present value of the following calculation:

$$\text{Zonal Cost Allocation} = \text{Project Cost} * \left(\frac{\text{(Zonal Benefits)}}{\text{Total Zonal Benefits for zone with positive net benefits}}\right)$$

31.5.4.4.4.2 Zonal cost allocation calculations for a Regulated Economic Transmission Project will be performed prior to the commencement of the ten-year period that begins with the project's in-service date, and will not be adjusted during that ten-year period.

31.5.4.4.4.3 Within zones, costs will be allocated to LSEs based on MWhs calculated for each LSE for each zone using data from the most recent available 12 month period. Allocations to an LSE will be calculated in accordance with the following formula:

$$\text{LSE Intrazonal Cost Allocation} = \text{Zonal Cost Allocation} * \left(\frac{\text{LSE Zonal MWh}}{\text{Total Zonal MWh}}\right)$$

31.5.4.4.5 Project costs allocated under this Section 31.5.4.4 will be determined as follows:

31.5.4.4.5.1 The project cost allocated under this Section 31.5.4.4 will be based on the total project revenue requirement, as supplied by the Developer of the project, for the first ten years of project operation. The total project revenue requirement will be determined in accordance with the formula rate on file at the Commission. If there is no formula rate on file at the Commission, then the Developer shall provide to the ISO the project-specific parameters to be used to calculate the total project revenue requirement.

31.5.4.4.5.2 Once the benefit/cost analysis is completed the amortization period and the other parameters used to determine the costs that will be recovered for the project should not be changed, unless so ordered by the Commission or a court of applicable jurisdiction, for cost recovery purposes to maintain the continued validity of the benefit/cost analysis.

31.5.4.4.5.3 The ISO, in conjunction with the ESPWG, will develop procedures to allocate the risk of project cost increases that occur after the ISO completes its benefit/cost analysis under this Attachment Y. These procedures may include consideration of an additional review and vote prior to the start of construction

and whether the Designated Entity(ies) for the Designated Economic Transmission Project(s) that comprise the Regulated Economic Transmission Project should bear all or part of the cost of any overruns; provided, however, that a Designated Entity that (i) is a Transmission Owner and is not the Developer that submitted the Regulated Economic Transmission Project and (ii) is designated an Economic Transmission Upgrade as a result of owning the existing transmission facility to be upgraded shall not, unless otherwise agreed to by the Transmission Owner, be responsible to bear the cost of any overrun for its Designated Economic Transmission Project.

31.5.4.4.6 The Commission must approve the cost of a proposed Regulated Economic Transmission Project, as well as associated Designated Network Upgrade Facilities identified for the interconnection of such Regulated Economic Transmission Project in accordance with Attachment P to the ISO OATT, for that cost to be recovered through Rate Schedule 10 of the ISO OATT. The Designated Entity's filing of its revenue requirement for its Designated Economic Transmission Project and Designated Network Upgrade Facilities identified for the interconnection of such Designated Economic Transmission Project in accordance with Attachment P to the ISO OATT (as applicable) with the Commission pursuant to Rate Schedule 10 must be consistent with the Regulated Economic Transmission Project proposal evaluated by the ISO under this Attachment Y and approved in accordance with Section 31.5.4.6 of this Attachment Y and the Designated Network Upgrade Facilities identified for the

Regulated Economic Transmission Project pursuant to Attachment P of the ISO OATT (as applicable) in order to be cost allocated to beneficiaries.

31.5.4.5 Collaborative Governance Process and Board Action

31.5.4.5.1 The ISO shall submit the results of its project benefit/cost analysis and beneficiary determination to the ESPWG and TPAS, and to the identified beneficiaries of the proposed Regulated Economic Transmission Project for comment. The ISO will include with its presentation for the ESPWG and TPAS a description of any Alternative Transmission Technologies that the Developer proposes to include as part of its Regulated Economic Transmission Project, along with a summary of any Developer explanation of its determination not to propose Alternative Transmission Technologies as part of its proposed Regulated Economic Transmission Project. The ISO shall make available to any interested party sufficient information to replicate the results of the benefit/cost analysis and beneficiary determination. The information made available will be electronically masked and made available pursuant to a process that the ISO reasonably determines is necessary to prevent the disclosure of any Confidential Information or Critical Energy Infrastructure Information contained in the information made available. Following the completion of this review by the ESPWG and TPAS, the ISO shall forward to the Business Issues Committee and, thereafter, to the Management Committee for discussion and action: (i) the ISO's analysis reflecting any revisions resulting from the TPAS and ESPWG review and (ii) a preliminary list identifying the Designated Economic Transmission Project(s) the comprise the Regulated Economic Transmission Project and the Designated

Entity(ies) responsible for each Designated Economic Transmission Project prepared in accordance with Section 31.3.2.4.2 of the ISO OATT.

31.5.4.5.2 Following the Management Committee vote, the ISO's project benefit/cost analysis, beneficiary determination, and the preliminary list identifying the Designated Economic Transmission Project(s) that comprise the Regulated Economic Transmission Project and the Designated Entity(ies) responsible for each Designated Economic Transmission Project will be forwarded, with the input of the Business Issues Committee and Management Committee, to the ISO Board for review and action in accordance with this Section 31.5.4.5.2. In addition, the ISO's determination of the beneficiaries' voting shares will be forwarded to the ISO Board for review and action. The Board may approve the analysis and beneficiary determinations as submitted or propose modifications on its own motion. If any changes to the benefit/cost analysis or the beneficiary determinations are proposed by the Board, the revised analysis and beneficiary determinations shall be returned to the Management Committee for comment. If the Board proposes any changes to the ISO's voting share determinations, the Board shall so inform the LSE or LSEs impacted by the proposed change and shall allow such an LSE or LSEs an opportunity to comment on the proposed change. The Board shall not make a final determination on the project benefit/cost analysis and beneficiary determination until it has reviewed the Management Committee comments. Upon final approval of the Board, project benefit/cost analysis and beneficiary determinations shall be posted by the ISO on

its website and shall form the basis of the beneficiary voting described in Section 31.5.4.6 of this Attachment Y.

31.5.4.6 Voting by Project Beneficiaries

31.5.4.6.1 Only LSEs serving Load located in a beneficiary zone determined in accordance with the procedures in Section 31.5.4.4 of this Attachment Y shall be eligible to vote on (i) a proposed Regulated Economic Transmission Project or (ii) a subsequent determination on whether to continue the implementation of a Regulated Economic Transmission Project based on a change to the project in accordance with the provisions of a Development Agreement between the ISO and the Designated Entity or pursuant to ISO Procedures. The ISO will, in conjunction with the ESPWG, develop procedures to determine the specific list of voting entities for each proposed project. Prior to a vote being conducted, the Developer of the Regulated Economic Transmission Project must have a completed System Impact Study or System Reliability Impact Study, as applicable.

31.5.4.6.2 The voting share of each LSE shall be weighted in accordance with its share of the total project benefits, as allocated by Section 31.5.4.4 of this Attachment Y.

31.5.4.6.3 The costs of a Regulated Economic Transmission Project shall be allocated under this Attachment Y if eighty percent (80%) or more of the actual votes cast on a weighted basis are cast in favor of implementing, or continuing with the implementation of, the project.

31.5.4.6.4 If the proposed Regulated Economic Transmission Project meets the required vote in favor of implementing, or continuing with the implementation of, the project, and the project is implemented, all beneficiaries, including those voting "no," will pay their proportional share of the cost of the project.

31.5.4.6.5 The ISO will tally the results of the vote in accordance with procedures set forth in the ISO Procedures, and report the results to stakeholders. Beneficiaries voting against approval of a Regulated Economic Transmission Project, or approval of the continued implementation of a Regulated Economic Transmission Project, must submit to the ISO their rationale for their vote within 30 days of the date that the vote is taken. Beneficiaries must provide a detailed explanation of the substantive reasons underlying the decision, including, where appropriate: (1) which additional benefit metrics, either identified in the tariff or otherwise, were used; (2) the actual quantification of such benefit metrics or factors; (3) a quantification and explanation of the net benefit or net cost of the project to the beneficiary; and (4) data supporting the metrics and other factors used. Such explanation may also include uncertainties, and/or alternative scenarios and other qualitative factors considered, including state public policy goals. The ISO will report this information to the Commission in an informational filing to be made within 60 days of the vote. The informational filing will include: (1) a list of the identified beneficiaries; (2) the results of the benefit/cost analysis; and (3) where a project is not approved or halted, whether the developer has provided any formal indication to the ISO as to the future development of the project.

31.5.4.6.6 Costs will be recovered when the Designated Economic Transmission Project, or the Designated Facilities Network Upgrade Facilities identified for the interconnection of such Designated Economic Transmission Project in accordance with Attachment P (if applicable), enters into service, is halted, or as otherwise determined by the Commission in accordance with the cost recovery requirements set forth in this Section 31.5.4 and Rate Schedule 10 of the ISO OATT. Actual project cost recovery, including any issues related to cost recovery and project cost overruns, will be submitted to and decided by the Commission in accordance with its regulations.

31.5.4.7 **Inability to Complete a Designated Economic Transmission Project**

31.5.4.7.1 If one of the following events occur: (i) a Designated Entity of a Designated Economic Transmission Project that is required to execute a Development Agreement does not execute the Development Agreement or does not request that it be filed unexecuted with the Commission, within the timeframes set forth in this Section 31.3.2.6.2, or (ii) the ISO determines that an effective Development Agreement may be terminated or terminates the Development Agreement under the terms of the agreement prior to the completion of the term of the agreement, the ISO may take one or more of the following actions related to the Designated Economic Transmission Project(s) that is, or a part of, the approved Regulated Economic Transmission Project based on the particular circumstances: (i) offer the Developer that originally submitted the Regulated Economic Transmission Project to be the Designated Entity of a Designated Economic Transmission Project that was initially designated to the owner of the existing transmission facility to be upgraded, or (ii) in all other

cases, advise the other Designated Entity(ies) with a Designated Economic Transmission Project(s) that is a part of the same Regulated Economic Transmission Project to halt further development of its respective Designated Economic Transmission Project and inform the LSE or LSEs that were identified pursuant to Sections 31.5.4.4 and 31.5.4.5 for the Regulated Economic Transmission Project. If the Development Agreement has been filed with and accepted by the Commission and is terminated under the terms of the agreement, the ISO shall, upon terminating the Development Agreement, file a notice of termination with the Commission and notify the identified beneficiaries.

31.5.4.7.2 If the ISO determines in accordance with Section 31.5.4.7.1 that the original Developer should be designated to complete a Designated Economic Transmission Project that was initially designated to the owner of the existing transmission facility to be upgraded, the ISO shall offer the Developer that originally proposed the Regulated Economic Transmission Project the opportunity to be the Designated Entity of that Designated Economic Transmission Project to finance and complete the development and construction of the project to bring it into service. The original Developer shall have 30 Calendar Days from the ISO tendering its offer to accept the Designated Economic Transmission Project. If the designation is accepted, the original Developer shall (i) become the Designated Entity for the Designated Economic Transmission Project and (ii) enter into a Development Agreement, or amend its existing Development Agreement, with the ISO related to the same Regulated Economic Transmission Project in accordance with the requirements in Section 31.3.2.6.2 of the ISO

OATT; and the NYISO will inform the LSE or LSEs that were identified pursuant to Sections 31.5.4.4 and 31.5.4.5 for the Regulated Economic Transmission Project. The alternative Designated Entity will be eligible for cost allocation and cost recovery under the ISO OATT for its development and construction of the Designated Economic Transmission~~Public Policy~~ Project. The alternative Designated Entity and the original Designated Entity of the Designated Economic Transmission Project shall work cooperatively with each other to implement the transition, including negotiating in good faith with each other to transfer the project; *provided, however*, that the transfer is subject to: (i) any required approvals by the appropriate governmental agency(ies) and/or authority(ies), (ii) any requirements or restrictions on the transfer of rights-of-way under federal or state law, regulation, or contract (including mortgage trust indentures or debt instruments), and (iii) if the original Designated Entity of the Designated Economic Transmission Project is a New York public authority, any requirements or restrictions on the transfer under the New York Public Authorities Law; *provided, further*, that the alternative Designated Entity and the original Designated Entity of the Designated Economic Transmission Project may address any disputes regarding such transfer of the project using dispute resolution procedures that are the same as those available to Transmission Customers under Section 11 of the ISO Market Administration and Control Area Services Tariff.

31.5.4.7.3~~2~~ If the ISO elects to terminate the Development Agreement for a Designated Entity's Designated Economic Transmission Project because another Designated Entity defaulted on the development of a separate Designated

Economic Transmission Project that is a component of the same approved Regulated Economic Transmission Project, the Designated Entity may recover all of the necessary and reasonable costs incurred and commitments made up to the notice of termination of the Development Agreement from the ISO, including reasonable and necessary expenses incurred to implement an orderly termination of the project and Designated Network Upgrade Facilities identified for the interconnection of such Designated Economic Transmission Project in accordance with Attachment P (if applicable), to the extent permitted by the Commission in accordance with its regulations. The ISO shall allocate these costs among the LSE or LSEs in accordance with Section 31.5.4, except as otherwise determined by the Commission. The Designated Entity(ies) shall be eligible to recover such costs in accordance with Section 31.5.76 of this Attachment Y and Rate Schedule 10 of the ISO OATT.

31.5.5 Regulated Transmission Solutions to Public Policy Transmission Needs

31.5.5.1 The Scope of Section 31.5.5

As discussed in Section 31.5.1 of this Attachment Y, the cost allocation principles and methodologies of this Section 31.5.5 apply only to a regulated Designated Public Policy Project that is a Public Policy Transmission Project, or part of a Public Policy Transmission Project, selected by the ISO as the more efficient or cost effective transmission solution to address a Public Policy Transmission Need, and Designated Network Upgrade Facilities designated pursuant to Section 22.9.6 of Attachment P to the ISO OATT and associated with a Public Policy Transmission Project selected by the ISO as the more efficient or cost effective transmission solution to address a Public Policy Transmission Need. This Section 31.5.5 does not apply to

Other Public Policy Projects, including generation or demand side management projects, or any market-based projects. This Section 31.5.5 does not apply to regulated reliability solutions implemented pursuant to the Reliability Planning Process, ~~nor does it apply~~ to Regulated Economic Transmission Projects, or to Long-Term Transmission Projects.

A regulated solution shall only utilize the cost allocation methodology set forth in Section 31.5.3 where it is: (1) a Responsible Transmission Owner's regulated backstop solution, (2) an alternative regulated transmission solution selected by the ISO as the more efficient or cost effective regulated transmission solution to satisfy a Reliability Need, or (3) seeking cost recovery where it has been halted or cancelled pursuant to the provisions of Section 31.2.8.2. A Regulated Economic Transmission Project approved pursuant to Section 31.5.4.6 shall only be eligible to utilize the cost allocation principles and methodologies set forth in Section 31.5.4. A regulated solution shall only utilize the cost allocation methodology set forth in Section 31.5.6 when it is a regulated Long-Term Transmission Project selected as the more efficient or cost-effective transmission solution to address a Long-Term Transmission Need.

31.5.5.2 Cost Allocation Principles

The ISO shall implement the specific cost allocation methodology in Section 31.5.5.4 of this Attachment Y in accordance with the Order No. 1000 Regional Cost Allocation Principles as set forth in Section 31.5.2.1. The specific cost allocation methodology in Section 31.5.5.4 incorporates the following elements:

31.5.5.2.1 The focus of the cost allocation methodology shall be on regulated Designated Public Policy Projects.

31.5.5.2.2 Projects analyzed hereunder as Designated Public Policy Projects may proceed on a market basis with willing buyers and sellers at any time.

31.5.5.2.3 Cost allocation shall be based on a beneficiaries pay approach.

31.5.5.2.4 Project benefits will be identified in accordance with Section 31.5.5.4.

31.5.5.2.5 Identification of beneficiaries for cost allocation and cost allocation among those beneficiaries shall be according to the methodology specified in Section 31.5.5.4.

31.5.5.3 Project Eligibility for Cost Allocation

The Designated Entity for a Designated Public Policy Project or Designated Network Upgrade Facilities will be eligible for cost allocation for the Designated Public Policy Project or Designated Network Upgrade Facilities in accordance with the process set forth in Section 31.5.5.4; *provided, however*, that if (i) the appropriate federal, state, or local agency(ies) rejects the Designated Public Policy Project's necessary authorizations, or such authorizations are withdrawn or (ii) the Development Agreement for the Designated Public Policy Project or Designated Network Upgrade Facilities are terminated as a result of another Designated Entity defaulting on the development of a separate Designated Public Policy Project or Designated Network Upgrade Facilities that compose the selected Public Policy Transmission Project and the ISO determines that the Public Policy Transmission Need will be addressed in a future planning cycle pursuant to Section 31.4.12.3.1.2, the costs that the Designated Entity is eligible to recover under Sections 31.4.12.1 or 31.4.12.3.1.5 shall be allocated in accordance with Section 31.5.5.4.3, except as otherwise determined by the Commission. The Designated Entity of a Designated Public Policy Project or Designated Network Upgrade Facilities may recover its costs in accordance with Section 31.5.76 and Rate Schedule 10 of the ISO OATT. If a Developer proposed its Public Policy Transmission Project in response to a request by the NYPSC or Long Island Power Authority pursuant to Section 31.4.3.2 and its project was not

selected by the ISO, the costs that such a Developer is eligible to recover pursuant to Section 31.4.3.2 shall be allocated in accordance with Section 31.5.5.4.3, except as otherwise determined by the Commission. Such a Developer may recover these costs in accordance with Section 31.5.7~~6~~ and Rate Schedule 10 of the ISO OATT.

31.5.5.4 Cost Allocation for Eligible Projects

As noted in Section 31.5.5.2 of this Attachment Y, the identification of beneficiaries for cost allocation and the cost allocation of a selected Public Policy Transmission Project will be conducted in accordance with the process described in this Section 31.5.5.4. This Section will also apply to the allocation within New York of the ISO's share of the costs of an Interregional Transmission Project proposed as a solution to a Public Policy Transmission Need allocated in accordance with Section 31.5.8~~7~~ of this Attachment Y. The establishment of a cost allocation methodology and rates for a proposed solution that is undertaken by LIPA or NYPA as an Unregulated Transmitting Utility to a Public Policy Transmission Need as determined in Sections 31.4.2.4~~1~~ through 31.4.2.6~~3~~, as applicable, or an Interregional Transmission Project shall occur pursuant to Section 31.5.5.4.4 through 31.5.5.4.6, as applicable. Nothing herein shall deprive a Transmission Owner or Other Developer of any rights it may have under Section 205 of the Federal Power Act to submit filings proposing any other cost allocation methodology to the Commission or create any Section 205 filing rights for any Transmission Owner, Other Developer, the ISO, or any other entity. The ISO shall apply the cost allocation methodology accepted by the Commission. The cost allocation methodology that is accepted or approved by the Commission for a

particular Public Policy Transmission Project in accordance with this Section 31.5.5.4 will be set forth in Appendix E (Section 31.8) of this Attachment Y.

31.5.5.4.1 If the Public Policy Requirement that results in the identification by the NYPSC of a Public Policy Transmission Need prescribes the use of a particular cost allocation and recovery methodology, then the ISO shall file that methodology with the Commission within 60 days of the issuance by the NYPSC of its identification of a Public Policy Transmission Need. Nothing herein shall deprive a Transmission Owner or Other Developer of any rights it may have under Section 205 of the Federal Power Act to submit filings proposing any other cost allocation methodology to the Commission or create any Section 205 filing rights for any Transmission Owner, Other Developer, the ISO, or any other entity. If the Transmission Owner or Other Developer files a different proposed cost allocation methodology under Section 205 of the Federal Power Act, it shall have the burden of demonstrating that its proposed methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles taking into account the methodology specified in the Public Policy Requirement.

31.5.5.4.2 Subject to the provisions of Section 31.5.5.4.1, a Designated Entity responsible for a Designated Public Policy Project may submit to the NYPSC for its consideration – no later than 60 days after the ISO's selection of the regulated Public Policy Transmission Project – a proposed cost allocation methodology, which may include a cost allocation based on load ratio share, adjusted to reflect, as applicable, the Public Policy Requirement or Public Policy Transmission Need,

the party(ies) responsible for complying with the Public Policy Requirement, and the party(ies) who benefit from the transmission facility.

31.5.5.4.2.1 The NYPSC shall have 150 days following the deadline set forth in Section 31.5.5.4.2 to submit a proposed cost allocation methodology to review the proposed cost allocation methodology(ies) submitted by a Designated Entity(ies) and to inform the Designated Entity(ies) whether it supports a proposed methodology.

31.5.5.4.2.2. If the NYPSC supports a proposed cost allocation methodology, the Designated Entity that proposed that cost allocation methodology shall file that cost allocation methodology with the Commission for its acceptance under Section 205 of the Federal Power Act within 30 days of the NYPSC informing the Developer of its support. The Designated Entity shall have the burden of demonstrating that the proposed cost allocation methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles.

31.5.5.4.2.3 If the NYPSC does not support a proposed cost allocation methodology, then the Designated Entity shall take reasonable steps to respond to the NYPSC's concerns and to develop a mutually agreeable cost allocation methodology over a period of no more than 60 days after the NYPSC informing the Designated Entity(ies) that it does not support the methodology(ies).

31.5.5.4.2.4 If a mutually acceptable cost allocation methodology is developed during the timeframe set forth in Section 31.5.5.4.2.3, a Designated Entity shall file it with the Commission for acceptance under Section 205 of the Federal Power Act no later than 30 days after the conclusion of the 60 day discussion period with the

NYPSC. The Designated Entity shall have the burden of demonstrating that the proposed cost allocation methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles.

31.5.5.4.2.5 If no mutually agreeable cost allocation methodology is developed, the Designated Entity(ies) shall file its preferred cost allocation methodology with the Commission for acceptance under Section 205 of the Federal Power Act no later than 30 days after the conclusion of the 60 day discussion period with the NYPSC. The Designated Entity(ies) shall have the burden of demonstrating that its proposed methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles in consideration of the position of the NYPSC. The filing shall include the methodology supported by NYPSC for the Commission's consideration. If the Designated Entity(ies) elects to use the load ratio share cost allocation methodology referenced below in Section 31.5.5.4.3, the Designated Entity(ies) shall notify the Commission of its intent to utilize the load ratio share methodology and shall include in its notice the NYPSC supported methodology for the Commission's consideration.

31.5.5.4.3. Unless the Commission has accepted an alternative cost allocation methodology pursuant to this Section, the ISO shall allocate the costs of the Public Policy Transmission Project to all Load Serving Entities in the NYCA using the default cost allocation methodology, based upon a load ratio share methodology.

31.5.5.4.4 The NYISO will make any Section 205 filings related to this Section on behalf of NYPA to the extent requested to do so by NYPA. NYPA shall bear the

burden of demonstrating that such a filing is compliant with the Order No. 1000 Regional Cost Allocation Principles. NYPA shall also be solely responsible for making any jurisdictional reservations or arguments related to their status as non-Commission-jurisdictional utilities that are not subject to various provisions of the Federal Power Act.

31.5.5.4.5 The cost allocation methodology and any rates for cost recovery for a proposed solution to a Public Policy Transmission Need undertaken by LIPA, as an Unregulated Transmitting Utility (for purposes of this section a "LIPA project"), shall be established and recovered as follows:

31.5.5.4.5.1 *For costs solely to LIPA customers.* The cost allocation methodology and rates to be established for a LIPA project, for which cost recovery will only occur from LIPA customers, will be established pursuant to Article 5, Title 1-A of the New York Public Authorities Law, Sections 1020-f(u) and 1020-s. Prior to the adoption of any cost allocation mechanism or rates for such a LIPA project, and pursuant to Section 1020-f(u), the Long Island Power Authority's Board of Trustees shall request that the NYDPS provide a recommendation with respect to the cost allocation methodology and rate that LIPA has proposed and the Board of Trustees shall consider such recommendation in accordance with the requirements of Section 1020-f(u). Upon approval of the cost allocation mechanism and/or rates by the Long Island Power Authority's Board of Trustees, LIPA shall provide to the ISO, for purposes of inclusion within the ISO OATT and filing with FERC on an informational basis only, a description of the cost allocation mechanism and

the rate that LIPA will charge and collect within the Long Island Transmission District.

31.5.5.4.5.2 *For Costs for a LIPA Project That May be Allocated to Other Transmission Districts.* A LIPA project that meets a Public Policy Transmission Need as determined by the NYPSC pursuant to Section 31.4.2.63(iii) may be allocated to market participants outside of the Long Island Transmission District. The cost allocation methodology and rate for such a LIPA project shall be established in accordance with the following procedures. LIPA's proposed cost allocation methodology and/or rate shall be reviewed and approved by the Long Island Power Authority's Board of Trustees pursuant to Article 5, Title 1-A of the New York Public Authorities Law, Sections 1020-f(u) and 1020-s. Prior to the adoption of any cost allocation mechanism or rates for such project and pursuant to Section 1020-f(u), the Long Island Power Authority's Board of Trustees shall request that the NYDPS provide a recommendation with respect to the cost allocation methodology and rate that LIPA has proposed and the Board of Trustees shall consider such recommendation in accordance with the requirements of Section 1020-f(u). LIPA shall inform the ISO of the cost allocation methodology and rate that has been approved by the Long Island Power Authority's Board of Trustees for filing with the Commission.

Upon approval by the Long Island Power Authority's Board of Trustees, LIPA shall submit and request that the ISO file the LIPA cost allocation methodology for approval with the Commission. Any cost allocation methodology for a LIPA project that allocates costs to market participants outside

of the Long Island Transmission District shall be reviewed as to whether there is comparability in the derivation of the cost allocation for market participants such that LIPA has demonstrated that the proposed cost allocation is compliant with the Order No. 1000 cost allocation principles, there are benefits provided by the project to market participants outside of the Long Island Transmission District, and that the proposed allocation is roughly commensurate to the identified benefits.

Article 5, Title 1-A of the New York Public Authorities Law, Sections 1020-f(u) and 1020-s, requires that LIPA's rates be established at the lowest level consistent with sound fiscal and operating practices of the Long Island Power Authority and which provide for safe and adequate service. Upon approval of a LIPA rate by the Long Island Power Authority's Board of Trustees pursuant to Section 1020-f(u), LIPA shall submit, and request that the ISO file, the LIPA rate with the Commission for review under the same comparability standard as applied to the review of changes in LIPA's TSC under Attachment H of this tariff.

In the event that the cost allocation methodology or rate approved by the Long Island Power Authority's Board of Trustees did not adopt the NYDPS recommendation, the NYDPS recommendation shall be included in the filing for the Commission's consideration.

31.5.5.4.5.3 *Support for Filing*. LIPA shall intervene in support of the filing(s) made pursuant to Section 31.5.5.4.5 at the Commission and shall take the responsibility to demonstrate that: (i) the cost allocation methodology and/or rate approved by the Long Island Power Authority's Board of Trustees meets the applicable

standard of comparability, and (ii) the Commission should accept such methodology or rate for filing. LIPA shall also be responsible for responding to, and seeking to resolve, concerns about the contents of the filing that might be raised in such proceeding.

31.5.5.4.5.4 *Billing of LIPA Charges Outside of the Long Island Transmission District.* For Transmission Districts other than the Long Island Transmission District, the ISO shall bill for LIPA, as a separate charge, the costs incurred by LIPA for a solution to a Public Policy Transmission Need allocated using the cost allocation methodology and rates established pursuant to Section 31.5.5.4.5.2 and accepted for filing by the Commission and shall remit the revenues collected to LIPA each Billing Period in accordance with the ISO's billing and settlement procedures.

31.5.5.4.6 The inclusion in the ISO OATT or in a filing with the Commission of the cost allocation and charges for recovery of costs incurred by NYPA or LIPA related to a solution to a transmission need driven by a Public Policy Requirement or Interregional Transmission Project as provided for in Sections 31.5.5.4.4 and 31.5.5.4.5 shall not be deemed to modify the treatment of such rates as non-jurisdictional pursuant to Section 201(f) of the FPA.

31.5.6 Regulated Transmission Solutions to Long-Term Transmission Needs

31.5.6.1 The Scope of Section 31.5.6

As discussed in Section 31.5.1 of this Attachment Y, the cost allocation principles and methodologies of this Section 31.5.6 apply only to a regulated Designated Long-Term Transmission Project that is a Long-Term Transmission Project, or part of a Long-Term Transmission Project, selected by the ISO as the more efficient or cost effective transmission

solution to address a Long-Term Transmission Need, and Designated Network Upgrade Facilities designated pursuant to Section 22.9.6 of Attachment P to the ISO OATT and associated with a Long-Term Transmission Project selected by the ISO as the more efficient or cost-effective transmission solution to address a Long-Term Transmission Need. This Section 31.5.6 does not apply to Other Long-Term Projects, including generation or demand side management projects, or any market-based projects. This Section 31.5.6 does not apply to regulated reliability solutions implemented pursuant to the Reliability Planning Process, Regulated Economic Transmission Projects, or Public Policy Transmission Projects.

31.5.6.2 Cost Allocation Principles

The ISO shall implement the specific cost allocation methodology in Section 31.5.6.4 of this Attachment Y in accordance with the Order No. 1000 Regional Cost Allocation Principles 1 through 5 as set forth in Section 31.5.2.1. The specific cost allocation methodology in Section 31.5.6.4 incorporates the following elements:

31.5.6.2.1 The focus of the cost allocation methodology shall be on regulated Designated Long-Term Transmission Projects.

31.5.6.2.2 Projects analyzed hereunder as Designated Long-Term Transmission Projects may proceed on a market basis with willing buyers and sellers at any time.

31.5.6.2.3 Cost allocation shall be based on a beneficiaries pay approach.

31.5.6.2.4 Project benefits will be identified in accordance with Section 31.5.6.4.

31.5.6.2.5 Identification of beneficiaries for cost allocation and cost allocation among those beneficiaries shall be according to the methodology specified in Section 31.5.6.4.

31.5.6.3 Project Eligibility for Cost Allocation

The Designated Entity for a Designated Long-Term Transmission Project or associated Designated Network Upgrade Facilities will be eligible for cost allocation for the Designated Long-Term Transmission Project or Designated Network Upgrade Facilities in accordance with the process set forth in Section 31.5.6.4; *provided, however*, that if (i) the appropriate federal, state, or local agency(ies) rejects the Designated Long-Term Transmission Project's necessary authorizations, or such authorizations are withdrawn, (ii) the Designated Long-Term Transmission Project is terminated as part of the Reevaluation Process pursuant to Section 31.6.14.3, or (iii) the Development Agreement for the Designated Long-Term Transmission Project or Designated Network Upgrade Facilities is terminated pursuant to Section 31.6.14.3 as a result of another Designated Entity defaulting on the development of a separate Designated Long-Term Transmission Project or Designated Network Upgrade Facilities that compose the selected Long-Term Transmission Project, the costs that the Designated Entity is eligible to recover under Sections 31.6.12.1 or 31.6.14.6 shall be allocated in accordance with Section 31.5.6.4.3, except as otherwise determined by the Commission. The Designated Entity of a Designated Long-Term Transmission Project or Designated Network Upgrade Facilities may recover its costs in accordance with Section 31.5.7 and Rate Schedule 10 of the ISO OATT. If a Developer proposed its Long-Term Transmission Project in response to a request by the NYPSC pursuant to Section 31.6.9.1.4 and its project was not selected by the ISO, the costs that such a Developer is eligible to recover pursuant to Section 31.6.9.1.4 shall be allocated in accordance with Section 31.5.6.4.3, except as otherwise determined by the Commission. Such a Developer may recover these costs in accordance with Section 31.5.7 and Rate Schedule 10 of the ISO OATT.

31.5.6.4 Cost Allocation for Eligible Projects

As noted in Section 31.5.6.2 of this Attachment Y, the identification of beneficiaries for cost allocation and the cost allocation of a selected Long-Term Transmission Project will be conducted in accordance with the process described in this Section 31.5.6.4. If LIPA, as an Unregulated Transmitting Utility, is the Designated Entity for a Designated Long-Term Transmission Project or Designated Network Upgrade Facility that is subject to cost allocation under this Section 31.5.6.4, the cost allocation methodology and rates for the LIPA Project (as defined in Section 31.5.6.4.5 below) shall be established pursuant to Section 31.5.6.4.5. If NYPA, as an Unregulated Transmitting Utility, is the Designated Entity for a Designated Long-Term Transmission Project or Designated Network Upgrade Facility that is eligible for cost allocation under this Section 31.5.6.4, NYPA's responsibility concerning any Section 205 filings under this Section 31.5.6.4 shall be addressed pursuant to Section 31.5.6.4.4. Nothing in this Section 31.5.6.4 shall deprive a Transmission Owner or Other Developer of any rights it may have under Section 205 of the Federal Power Act to submit filings proposing any other cost allocation methodology to the Commission or create any Section 205 filing rights for any Transmission Owner, Other Developer, the ISO, or any other entity. The ISO shall apply the cost allocation methodology accepted by the Commission. The cost allocation methodology that is accepted or approved by the Commission for a particular Long-Term Transmission Project in accordance with this Section 31.5.6.4 will be set forth in Appendix G (Section 31.10) of this Attachment Y.

31.5.6.4.1 If the NYPSC prescribes the use of a particular cost allocation and recovery methodology with its determination of the Long-Term Transmission Need, which methodology differs from the default methodology set forth in Section 31.5.6.4.3, then the ISO shall file that methodology with the Commission within 60 days of the NYPSC's issuance of its determination. Nothing in this Section 31.5.6.4.1 shall deprive a Transmission Owner or Other Developer of any rights it may have under Section 205 of the Federal Power Act to submit filings proposing any other cost allocation methodology to the Commission or create any Section 205 filing rights for any Transmission Owner, Other Developer, the ISO, or any other entity. If the Transmission Owner or Other Developer files a different proposed cost allocation methodology under Section 205 of the Federal Power Act, it shall have the burden of demonstrating that its proposed methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles 1 through 5 taking into account the methodology specified by the NYPSC with its determination of the Long-Term Transmission Need.

31.5.6.4.2 Subject to the provisions of Section 31.5.6.4.1, a Designated Entity responsible for a Designated Long-Term Transmission Project may submit to the NYPSC for its consideration – no later than 60 days after the ISO's selection of the regulated Long-Term Transmission Project – a proposed cost allocation methodology, which may include a cost allocation based on load ratio share, adjusted to reflect, as applicable, the Long-Term Transmission Need, the party(ies) responsible for complying with the Long-Term Transmission Need, and the party(ies) who benefit from the transmission facility.

31.5.6.4.2.1 The NYPSC shall have 150 days following the deadline set forth in Section 31.5.6.4.2 to submit a proposed cost allocation methodology to review the proposed cost allocation methodology submitted by a Designated Entity and to inform the Designated Entity whether it supports or does not support a proposed methodology.

31.5.6.4.2.2 If the NYPSC supports the Designated Entity's proposed cost allocation methodology, the Designated Entity shall file that cost allocation methodology with the Commission for its acceptance under Section 205 of the Federal Power Act within 30 days of the NYPSC's response pursuant to Section 31.5.6.4.2.1. The Designated Entity shall have the burden of demonstrating that the proposed cost allocation methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles 1 through 5.

31.5.6.4.2.3 If the NYPSC does not support the Designated Entity's proposed cost allocation methodology, then the Designated Entity shall take reasonable steps to respond to the NYPSC's concerns and to develop a mutually agreeable cost allocation methodology over a period of no more than 60 days after the NYPSC's response pursuant to Section 31.5.6.4.2.1. Reasonable steps shall include, but not be limited to, providing information to the NYPSC or NYDPS related to the proposed cost allocation methodology that they may reasonably require.

31.5.6.4.2.4 If a mutually acceptable cost allocation methodology is developed during the timeframe set forth in Section 31.5.6.4.2.3, the Designated Entity shall file it with the Commission for acceptance under Section 205 of the Federal Power Act no later than 30 days after the conclusion of the 60-day discussion period with the

NYPSC. The Designated Entity shall have the burden of demonstrating that the proposed cost allocation methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles 1 through 5.

31.5.6.4.2.5 If no mutually agreeable cost allocation methodology is developed, the Designated Entity shall file its preferred cost allocation methodology with the Commission for acceptance under Section 205 of the Federal Power Act no later than 30 days after the conclusion of the 60-day discussion period with the NYPSC. The Designated Entity shall have the burden of demonstrating that its proposed methodology is compliant with the Order No. 1000 Regional Cost Allocation Principles 1 through 5 and shall identify areas of disagreement with the NYPSC. The filing shall include the methodology supported by NYPSC for the Commission's consideration. If the Designated Entity elects to use the load ratio share cost allocation methodology referenced below in Section 31.5.6.4.3, the Designated Entity shall notify the Commission of its intent to utilize the load ratio share methodology and shall include in its notice the NYPSC supported methodology for the Commission's consideration.

31.5.6.4.3 Unless the Commission has accepted an alternative cost allocation methodology pursuant to this Section, the ISO shall allocate the costs of the Long-Term Transmission Project to all Load Serving Entities in the NYCA using the default cost allocation methodology, based upon a load ratio share methodology.

31.5.6.4.4 The ISO will make any Section 205 filings related to this Section on behalf of NYPA to the extent requested to do so by NYPA. NYPA shall bear the burden of demonstrating that such a filing is compliant with the Order No. 1000

Regional Cost Allocation Principles 1 through 5. NYPA shall also be solely responsible for making any jurisdictional reservations or arguments related to its status as a non-Commission-jurisdictional utility that is not subject to various provisions of the Federal Power Act.

31.5.6.4.5 The cost allocation methodology and any rates for cost recovery for a Designated Long-Term Transmission Project or Designated Network Upgrade Facilities that is subject to cost allocation under this Section 31.5.6.4 for which LIPA is the Designated Entity (for purposes of this section a "LIPA Project") shall be established and recovered as follows:

31.5.6.4.5.1 Unless the Commission has accepted an alternative cost allocation methodology, the ISO shall allocate the costs of a LIPA Project to all Load Serving Entities in the NYCA using the default cost allocation methodology established pursuant to Section 31.5.6.4.3, based upon a load ratio share methodology. The Long Island Power Authority's Board of Trustees ("LIPA Board") may recommend an alternative cost allocation methodology to be applied to a LIPA Project, after first consulting with, and considering recommendations received from, the NYDPS. Following the LIPA Board's determination, which will be completed within 150 calendar days from the date upon which LIPA is identified as a Designated Entity for a LIPA Project pursuant to Section 31.6.11.5, the alternative cost allocation methodology will be provided to the NYPSC for consideration consistent with the procedures set forth in the consultations specified in Sections 31.5.6.4.2 and 31.5.6.4.2.1 through 31.5.6.4.3. Following completion of the NYPSC review, LIPA shall submit and request that the ISO file

the alternative cost allocation methodology for approval with the Commission, including a statement of the NYPSC on the proposed, alternative cost allocation methodology. Any proposed, alternative cost allocation methodology for a LIPA Project, filed by the ISO with the Commission, shall be reviewed as to whether there is comparability in the derivation of the cost allocation for market participants such that LIPA has demonstrated that the proposed, alternative cost allocation is compliant with the Order No. 1000 Regional Cost Allocation Principles 1 through 5 and that the proposed allocation is roughly commensurate to the identified benefits.

31.5.6.4.5.2 The rates for a LIPA Project shall be established in accordance with the following procedures. LIPA's proposed rate shall be reviewed and approved by the LIPA Board pursuant to Article 5, Title 1-A of the New York Public Authorities Law, Sections 1020-f(u) and 1020-s. Prior to the adoption of any rates for the LIPA Project and pursuant to Section 1020-f(u), the LIPA Board shall request that the NYDPS provide a recommendation with respect to the rate that LIPA has proposed and the LIPA Board shall consider such recommendation in accordance with the requirements of Section 1020-f(u). Upon approval of a rate for a LIPA Project by the LIPA Board pursuant to Section 1020-f(u), LIPA shall submit, and request that the ISO file, such rate with the Commission for review under the same comparability standard as applied to the review of changes in LIPA's TSC under Attachment H of this Tariff.

In the event the rate approved by the LIPA Board does not adopt the NYDPS recommendation, the NYDPS recommendation shall be included in the filing for the Commission's consideration.

31.5.6.4.5.3 *Support for Filing*. LIPA shall intervene in support of the filing(s) made by the ISO at the request of LIPA pursuant to Section 31.5.6.4.5 at the Commission and shall take the responsibility to demonstrate that: (i) the cost allocation methodology and/or rate approved by the LIPA Board meets the applicable standard of comparability, and (ii) the Commission should accept such methodology or rate for filing, as applicable. LIPA shall also be responsible for responding to, and seeking to resolve, concerns about the contents of the filing that might be raised in such proceeding.

31.5.6.4.5.4 *Billing of LIPA Charges Outside of the Long Island Transmission District.* For Transmission Districts other than the Long Island Transmission District, the ISO shall bill for LIPA, as a separate charge, the costs incurred by LIPA for a solution to a Long-Term Transmission Need allocated using the cost allocation methodology and rates established pursuant to Section 31.5.6.4.5.2 and accepted for filing by the Commission and shall remit the revenues collected to LIPA each Billing Period in accordance with the ISO's billing and settlement procedures.

31.5.6.4.6 The inclusion in the ISO OATT or in a filing with the Commission of the cost allocation and charges for recovery of costs incurred by NYPA or LIPA related to a solution to a Long-Term Transmission Need as provided for in Sections 31.5.6.4.4 and 31.5.6.4.5 shall not be deemed to modify the treatment of such rates as non-jurisdictional pursuant to Section 201(f) of the FPA.

31.5.6.4.7 Amendments to Cost Allocation Requirements for Selected Long-Term Transmission Projects

31.5.6.4.7.1 Prior to seeking stakeholder approval of a proposed amendment to the requirements in Section 31.5.6.4 that would be subject to a filing with the Commission pursuant to Section 205 of the Federal Power Act, the ISO will provide NYDPS and LIPA with an opportunity to consult concerning such proposed amendments. The ISO will provide notice to NYDPS and LIPA that establishes a period of at least 30 calendar days during which the ISO, NYDPS, and LIPA have the opportunity to consult concerning the proposed amendment. The notice shall include: a description of the proposed amendment; potential meeting times to assist scheduling a meeting among the NYISO, NYDPS, and LIPA; contact information that NYDPS and LIPA may use to communicate with the ISO concerning the proposed amendment; and a deadline for NYDPS and LIPA to provide any written comments to the ISO concerning the proposed amendment, including any alternative proposals. NYDPS and LIPA may elect not to participate in this consultation process or may provide its written comments, including any alternative proposal, in advance of the deadline established in the notice. The ISO will post on its website its notice to NYDPS and LIPA and any written comments, including alternative proposals, received from NYDPS and LIPA for the ISO's and its stakeholders' consideration. The ISO will detail in its filing of any proposed amendments to Section 31.5.6.4 pursuant to Section 205 of the Federal Power Act its compliance with the requirements in this Section 31.5.6.4.7.1, including indicating whether the proposed amendment differs from an alternative proposal provided by NYDPS and LIPA pursuant to this Section 31.5.6.4.7.1.

31.5.6.4.7.2 NYDPS and LIPA may provide notice to the ISO at any time of a proposed amendment to the requirements in this Section 31.5.6.4. The ISO will post this notice on its website and will commence a stakeholder process to consider the proposed amendment.

NYDPS and LIPA shall provide the ISO with the materials required to support the proposed amendment for the stakeholder meetings no less than five (5) Business Days in advance of a stakeholder working group meeting and no less than seven (7) Business Days in advance of a stakeholder committee meeting. NYDPS and LIPA shall be responsible for presenting and supporting the proposed amendment at stakeholder meetings. If the ISO's Management Committee and the ISO Board approve the amendment pursuant to the requirements in Section 2.10 of the ISO OATT and Article 19 of the ISO Agreement, the ISO shall file the proposed amendment with the Commission pursuant to Section 205 of the Federal Power Act. NYDPS and LIPA shall reasonably cooperate with the NYISO with respect to such filing and shall provide all information reasonably requested by the ISO to support the filing, including, but not limited to, justification, affidavits, and/or testimony detailing how the proposed amendment complies with the cost allocation requirements in this Section 31.5 and Commission precedent. If the ISO Board does not approve the proposed amendment, the ISO will post on its website an explanation of its determination not to approve the amendment.

31.5.6.4.7.3 Nothing in this Section 31.5.6.4.7: (i) limits the NYDPS's or LIPA's ability to participate in the NYISO's stakeholder process concerning proposed amendments to the requirements in Section 31.5.6.4 to the processes established in Sections 31.5.6.4.7.1 or 31.5.6.4.7.2 or (ii) the NYDPS's or LIPA's ability to participate in any subsequent proceeding before FERC.

31.5.76 Cost Recovery for Regulated Projects

31.5.76.1 Cost Recovery for Regulated Transmission Project to Address a Reliability Need Identified in the Reliability Planning Process

31.5.76.1.1 A Responsible Transmission Owner, a Transmission Owner, or an Other Developer may recover in accordance with Rate Schedule 10 of the ISO OATT

the costs incurred with respect to the implementation of: (i) a Designated Backstop Transmission Project; (ii) a Designated Alternative Transmission Project; (iii) a regulated transmission Gap Solution proposed by a Responsible Transmission Owner pursuant to Section 31.2.11.4 of this Attachment Y; (iv) an alternative regulated transmission Gap Solution that has been determined by the appropriate state regulatory agency(ies) as the preferred solution(s) to a Reliability Need pursuant to Section 31.2.11.5 of Attachment Y of the ISO OATT; or (v) Designated Network Upgrade Facilities identified for the interconnection of a Designated Reliability Transmission Project in accordance with Attachment P.

31.5.7~~6~~.1.2 If a Designated Reliability Transmission Project, including Designated Network Upgrade Facilities identified for the interconnection of such Designated Reliability Transmission Project in accordance with Attachment P, or regulated transmission Gap Solution: (i) is eligible for cost recovery as described in Section 31.5.7~~6~~.1.1 and (ii) is not triggered or is halted pursuant to Sections 31.2.8 or 31.2.10.1.2 of this Attachment Y, the Responsible Transmission Owner, Transmission Owner or Other Developer of that solution may recover the costs that it eligible to recover pursuant to Sections 31.2.8 or 31.2.10.1.2 in accordance with Rate Schedule 10 of the ISO OATT.

31.5.7~~6~~.1.3 Costs related to non-transmission regulated solutions to Reliability Needs will be recovered by a Responsible Transmission Owner, Transmission Owner, or Other Developer in accordance with the provisions of New York Public Service Law, New York Public Authorities Law, or other applicable state law. A

Responsible Transmission Owner, a Transmission Owner, or Other Developer may propose and undertake a regulated non-transmission solution, provided that the appropriate state agency(ies) has established cost recovery procedures comparable to those provided in this tariff for regulated transmission solutions to ensure the full and prompt recovery of all reasonably-incurred costs related to such non-transmission solutions. Nothing in this section shall affect the Commission's jurisdiction over the sale and transmission of electric energy subject to the jurisdiction of the Commission.

31.5.76.2 Cost Recovery for Regulated Economic Transmission Project

A Transmission Owner or an Other Developer may recover in accordance with Rate Schedule 10 of the ISO OATT the costs incurred with respect to the implementation a Designated Economic Transmission Project that has been approved pursuant to Section 31.5.4.6 of this Attachment Y and Designated Network Upgrade Facilities identified for the interconnection of the Designated Economic Transmission Project in accordance with Attachment P (as applicable).

31.5.76.3 Cost Recovery for Regulated Transmission Project to Address a Public Policy Transmission Need

31.5.76.3.1 A Transmission Owner or an Other Developer may recover in accordance with Rate Schedule 10 of the ISO OATT the costs incurred with respect to the implementation of: (i) a Designated Public Policy Project that is a Public Policy Transmission Project, or part of a Public Policy Transmission Project, including Designated Network Upgrade Facilities designated pursuant to Section 22.9.6 of Attachment P to the ISO OATT and associated with the Public Policy

Transmission Project, or part of the Public Policy Transmission Project, that the ISO has selected as the more efficient or cost-effective solution to a Public Policy Transmission Need, or (ii) a Public Policy Transmission Project proposed by a Developer in response to a request by the NYPSC or Long Island Power Authority in accordance with Section 31.4.3.2 of Attachment Y of the ISO OATT. Such cost recovery will also include reasonable costs incurred by the Designated Entity to provide a more detailed study or cost estimate for a Designated Public Policy Project or Designated Network Upgrade Facilities at the request of the NYPSC, and to prepare the application required to comply with New York Public Service Law Article VII, or any successor statute or any other applicable permits, and to seek other necessary authorizations.

31.5.7~~6~~.3.2 If a regulated solution that: (i) is eligible for cost recovery as described in Section 31.5.7~~6~~.3.1 and (ii) is halted as described in Sections 31.4.12.1 or 31.4.12.3.1.5 of this Attachment Y, the Designated Entity of that solution may recover the costs that it is eligible to recover pursuant to Sections 31.4.12.1 or 31.4.12.3.1.5 in accordance with Rate Schedule 10 of the ISO OATT.

31.5.7.4 Cost Recovery for Regulated Transmission Project to Address a Long-Term Transmission Need

31.5.7.4.1 A Transmission Owner or an Other Developer may recover in accordance with Rate Schedule 10 of the ISO OATT the costs incurred with respect to: (i) the implementation of a Designated Long-Term Transmission Project that is a Long-Term Transmission Project, or part of a Long-Term Transmission Project, including Designated Network Upgrade Facilities designated pursuant to Section 22.9.6 of Attachment P to the ISO OATT and associated with the Long-Term

Transmission Project, or part of the Long-Term Transmission Project, that the ISO has selected as the more efficient or cost-effective solution to a Long-Term Transmission Need, or (ii) the preparation of a Long-Term Transmission Project proposed by a Developer in response to a request by the NYPSC in accordance with Section 31.6.9.1.4 of Attachment Y of the ISO OATT. Such cost recovery will also include reasonable costs incurred by the Designated Entity to provide a more detailed study or cost estimate for a Designated Long-Term Transmission Project or Designated Network Upgrade Facilities at the request of the NYPSC, and to prepare the application required to comply with New York Public Service Law Article VII, Article VIII, or any successor statute or any other applicable permits, and to seek other necessary authorizations.

31.5.7.4.2 If a regulated solution that: (i) is eligible for cost recovery as described in Section 31.5.7.4.1 and (ii) is halted as described in Sections 31.6.12.1 or 31.6.14.6 of this Attachment Y, the Designated Entity of that solution may recover the costs that it is eligible to recover pursuant to Section 31.6.12.1 or 31.6.14.6 in accordance with Rate Schedule 10 of the ISO OATT.

31.5.~~7~~6.5~~4~~ Cost Recovery for Interregional Transmission Project

A Responsible Transmission Owner, a Transmission Owner, or an Other Developer may recover in accordance with Rate Schedule 10 of the ISO OATT the costs incurred with respect to the implementation of the portion of an Interregional Transmission Project selected by the ISO in the CSPP that is allocated to the NYISO region pursuant to Section 31.5.8~~7~~ of Attachment Y of the ISO OATT.

31.5.87 Cost Allocation for Eligible Interregional Transmission Projects

31.5.87.1 Costs of Approved Interregional Transmission Projects

The cost allocation methodology reflected in this Section 31.5.87.1 shall be referred to as the "Northeastern Interregional Cost Allocation Methodology" (or "NICAM"), and shall not be modified without the mutual consent of the Section 205 rights holders in each region.

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

(a) To be eligible for interregional cost allocation, an Interregional Transmission Project must be selected in the regional transmission plan for purposes of cost allocation in each of the transmission planning regions in which the transmission project is proposed to be located, pursuant to agreements and tariffs on file at FERC for each region. With respect to Interregional Transmission Projects and other transmission projects involving the ISO and PJM, the cost allocation of such projects shall be in accordance with the Joint Operating Agreement ("JOA") among and between the ISO and PJM. With respect to Interregional Transmission Projects and other transmission projects involving the ISO and ISO-NE, the cost allocation for such projects shall be in accordance with this Section 31.5.87 of Attachment Y of the NYISO Open Access Transmission Tariff and with the respective tariffs of ISO-NE.

(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 to the total of the present values of the estimated costs of

the displaced regional transmission projects in all regions that have selected the Interregional Transmission Project in their regional transmission plans.

(i) 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").

(ii) In order to perform the analysis in this Section 31.5.8~~7~~.1(b), the estimated cost of the displaced regional transmission projects shall specify the year's dollars in which those estimates are provided.

(iii) The present value analysis for all displaced regional transmission projects shall use a common discount rate. The regions having displaced projects will mutually agree, in consultation with their respective transmission owners, and for purposes of the ISO, its other stakeholders, on the discount rate to be used for the present value analysis.

(iv) For the purpose of this allocation, cost estimates shall use comparable cost estimating procedures. In the Interregional Planning Stakeholder Advisory Committee review process, the regions having displaced projects will review and determine, in consultation with their respective transmission owners, and for purposes of the NYISO, its other stakeholders, that reasonably comparable estimating procedures have been used prior to applying this cost allocation.

(c) No cost shall be allocated to a region that has not selected the Interregional Transmission Project in its regional transmission plan.

(d) When a portion of an Interregional Transmission Project evaluated under the Interregional Planning Protocol is included by a region (Region 1) in its regional transmission plan but there is no regional need or displaced regional transmission project in Region 1, and the neighboring region (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, all of the costs of the Interregional Transmission Project shall be allocated to Region 2 in accordance with the NICAM and none of the costs shall be allocated to Region 1. However, Region 1 may voluntarily agree, with the mutual consent of the Section 205 rights holders in the other affected region(s) (including the Long Island Power Authority and the New York Power Authority in the NYISO region) to use an alternative cost allocation method filed with and accepted by the Commission.

(e) The portion of the costs allocated to a region pursuant to the NICAM shall be further allocated to that region's transmission customers pursuant to the applicable provisions of the region's FERC-filed documents and agreements, for the ISO in accordance with Section 31.5.1.7 of Attachment Y of the ISO OATT.

(f) 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 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) / $(1+D)^{N(X)}$
    - Present Value of Cost (Y) = PV Cost (Y) = Cost (Y) / $(1+D)^{N(Y)}$
    - 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 x 33.039/(33.039 + 28.888) = $42,681 Million

  Cost Allocation to Region B = $80 x 28.888/(33.039+28.888) = $37.319 Million

31.5.8~~7~~.2 Other Cost Allocation Arrangements

(a) Except as provided in Section 31.5.8~~7~~.2(b), the NICAM is the exclusive means by which any costs of an Interregional Transmission Project may be allocated between or among PJM, the ISO, and ISO-NE.

(b) Nothing in the FERC-filed documents of ISO-NE, the ISO or PJM shall preclude agreement by entities with cost allocation rights under Section 205 of the Federal Power Act for their respective regions (including the Long Island Power Authority and the New York Power Authority in the ISO region) to enter into separate agreements to allocate the cost-of Interregional Transmission Projects proposed to be located in their regions as an alternative to the NICAM, or other transmission projects identified pursuant to assessments and studies conducted pursuant to Section 6 of the Interregional Planning Protocol. Such other cost-

allocation methodologies must be approved in each region pursuant to the Commission-approved rules in each region, filed with and accepted by the Commission, and shall apply only to the region's share of the costs of an Interregional Transmission Project or other transmission projects pursuant to Section 6 of the Interregional Planning Protocol, as applicable.

31.5.87.3 Filing Rights

Nothing in this Section 31.5.87 will convey, expand, limit or otherwise alter any rights of ISO-NE, the ISO, PJM, each region's transmission owners, market participants, or other entities to submit filings under Section 205 of the Federal Power Act regarding interregional cost allocation or any other matter.

Where applicable, the regions have been authorized by entities that have cost allocation rights for their respective regions to implement the provisions of this Section 31.5.87.

31.5.87.4. Merchant Transmission and Individual Transmission Owner Projects

Nothing in this Section 31.5.87 shall preclude the development of Interregional Transmission Projects that are funded solely by merchant transmission developers or by individual transmission owners.

31.5.87.5 Consequences to Other Regions from Regional or Interregional Transmission Projects

Except as provided herein in Sections 31.5.87.1 and 31.5.87.2, or where cost responsibility is expressly assumed by ISO-NE, the ISO or PJM in other documents, agreements or tariffs on file with FERC, neither the ISO-NE region, the ISO 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 Interregional Planning Protocol and Interregional Transmission Projects identified pursuant to Section 7 of the Interregional Planning Protocol.