NEW YORK INDEPENDENT SYSTEM OPERATOR

10 Krey Boulevard ♦ Rensselaer, NY 12144

June 20, 2016

By Electronic Delivery

Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street N.E.
Washington, D.C. 20426

Re: ***New York Independent System Operator, Inc.*****, Proposed Tariff Revisions Regarding NYISO's Cost Allocation Methodology for its Reliability Planning Process; Docket No. ER16-____-000**

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act ("FPA"),[1] the New York Independent System Operator, Inc. ("NYISO") hereby submits proposed revisions to the cost allocation methodology for the reliability planning component of its Comprehensive System Planning Process ("Reliability Cost Allocation Methodology").[2] The NYISO proposes to add a new step under its existing Reliability Cost Allocation Methodology to allocate the costs of regulated transmission solutions that resolve transmission security violations. Other proposed revisions include removing the sunset provision of the Reliability Cost Allocation Methodology contained in Section 31.5.3.2.1.6 of Attachment Y of the NYISO Open Access Transmission Tariff ("OATT") to continue the existing methodology without expiration, and conforming the cost recovery formulas in Section 6.10 of the OATT ("Rate Schedule 10") to the revised methodology. The NYISO's proposed revisions were approved by its stakeholders without objection and by its Board of Directors.

As described in Part V of this letter, the NYISO respectfully requests a waiver of the Commission's prior notice requirements to make the removal of the sunset provision in Section 31.5.3.2.1.6 of the OATT effective as of January 1, 2016. The January 1, 2016, effective date will avoid a gap in the effectiveness of the existing Reliability Cost Allocation Methodology, which would otherwise expire on December 31, 2015. The NYISO requests that the remaining tariff revisions to enhance the existing Reliability Cost Allocation Methodology have an effective date of August 19, 2016, which is 60 days after the date of this letter.

[1] 16 U.S.C. § 824d; 18 C.F.R. § 385.205.

[2] Capitalized terms that are not otherwise defined in this filing letter shall have the meaning specified in Attachment Y of the NYISO OATT, and if not defined therein, in the NYISO OATT and the NYISO Market Administration and Control Area Services Tariff.

I. List of Documents Submitted

The NYISO submits the following documents along with this filing letter:

- A clean version of the proposed revisions to the OATT, effective January 1, 2016 (Attachment I);
- A blacklined version of the proposed revisions to the OATT effective January 1, 2016 (Attachment II);
- A clean version of the proposed revisions to the OATT, effective August 19, 2016 (Attachment III);
- A blacklined version of the proposed revisions to the OATT effective August 19, 2016 (Attachment IV);
- A clean version of Section 31.5 of the OATT effective February 19, 2016 (Attachment V);[3]
- A clean version of Section 31.5 of the OATT effective April 1, 2016 (Attachment VI);[4]
- Affidavit of Zachary G. Smith - Transmission Planning for the NYISO (Attachment VII); and
- Transmission Security Cost Allocation Presentation (September 17, 2015), reposted on May 18, 2016 at Market Participants' request (Attachment VIII).

II. Copies of Correspondence

Communications regarding this pleading should be addressed to:

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[3] Revisions to OATT Section 31.5 were filed in other proceedings on tariff section bases with effective dates after the effective date requested for the tariff revision removing Section 31.5.3.2.1.6 of the OATT requested herein. *See* Docket Nos. ER16-966-000, -001 (requested effective February 19, 2016); Docket Nos. ER13-102-009, -010 (requested to be effective April 1, 2016).

[4] *See* footnote 3, *supra*.

[5] The NYISO respectfully requests a waiver of 18 C.F.R. § 385.203(b)(3) to permit service on counsel for the NYISO in both Washington, D.C. and Richmond, VA.

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III. Background

A. NYISO's Existing Reliability Cost Allocation Methodology

The NYISO's Comprehensive System Planning Process ("CSPP") is composed of the NYISO's reliability, economic, and public policy transmission planning processes. The cost allocation methodology for the reliability planning process component of the CSPP is located in Section 31.5.3 of the OATT, with the related cost recovery requirements located in Rate Schedule 10. The NYISO initially established the Reliability Cost Allocation Methodology in compliance with Order No. 890.[6] The Commission subsequently accepted this methodology, with minor revisions, as compliant with the Order No. 1000 regional cost allocation principles.[7]

The existing Reliability Cost Allocation Methodology allocates to Load Serving Entities ("LSEs") the costs of a regulated solution to a Reliability Need on the New York State Bulk Power Transmission Facilities ("BPTFs") that arise from a resource adequacy issue.[8] The solutions eligible for cost allocation include a Responsible Transmission Owner's regulated backstop solution or an Other Developer's or Transmission Owner's alternative regulated transmission solution selected by the NYISO as the more efficient or cost-effective transmission solution to a Reliability Need.[9]

The NYISO employs a "needs-based" methodology that allocates the cost of a reliability solution to those LSEs in New York that contribute to the Reliability Need and primarily benefit from the solution to that need. More precisely, the existing Reliability Cost Allocation Methodology has a three-step approach that focuses on whether there is a locational, statewide, or a bounded region Reliability Need arising from a resource adequacy issue. The NYISO performs this three-step process using the same system modeling that is used in identifying the Reliability Need necessitating the solution that will receive cost allocation.

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[6] *See New York Independent System Operator, Inc.*, Order on Compliance Filing, 125 FERC ¶ 61,068 (2008) (accepting NYISO's proposed methodology for allocating the costs of transmission projects constructed in response to Reliability Needs as consistent with the cost allocation principles in Order No. 890).

[7] *See New York Independent System Operator, Inc.*, 143 FERC ¶ 61,059 at PP 311-318 (2013) (finding the NYISO's cost allocation methodology for its reliability planning process as compliant with all but Regional Principle #4); *New York Independent System Operator, Inc.*, 148 FERC ¶ 61,044 at PP 296-297 (2014) (finding NYISO's cost allocation methodology for its reliability planning process as compliant with Regional Principle #4).

[8] OATT, Attachment Y, Section 31.5.3.2.1.

[9] OATT, Attachment Y, Section 31.5.3.2.1.

Step one focuses on those areas within the New York Control Area ("NYCA") that have Locational Minimum Installed Capacity Requirements ("LCRs") (*i.e.*, allocation to LSEs in Load Zones J, K, and G through J), which are referred to herein as "LCR Zones." The costs of reliability upgrades in LCR Zones are allocated to LSEs in those Load Zones. In step two, the NYISO runs its reliability simulation model with all internal transmission constraints relaxed to determine whether an unconstrained NYCA would have a Loss of Load Expectation ("LOLE") of less than 0.1 days per year. If not, the reliability upgrades necessary to meet the LOLE threshold are allocated to all Load Zones based on their coincident peak load contribution. LSEs in LCR Zones receive credit for meeting their LCRs under this calculation. If the reliability simulation shows that there are still Reliability Needs, step three requires the NYISO to apply a binding interface test. This test identifies binding transmission constraints that prevent the deliverability of capacity throughout the NYCA and allocates the remaining costs to LSEs within the constrained area.

The existing Reliability Cost Allocation Methodology does not provide for the allocation of the costs of a regulated transmission solution to a Reliability Need on the BPTFs resulting from thermal, voltage, or dynamic stability transmission security issues. Such costs are currently deemed local and not allocated and recovered by the NYISO under the OATT.[10] The NYISO has previously informed the Commission, as part of its Order No. 1000 proceeding, of this potential gap in its Reliability Cost Allocation Methodology and its intent to develop a new process step to address it.[11] The NYISO indicated that it would work with its stakeholders to develop the transmission security step. In the meantime, the NYISO included a placeholder in Section 31.5.3.2.1.4 of the OATT, indicating that it would take such action with stakeholders. The NYISO has subsequently worked with its stakeholders to develop this new step.[12]

In addition, the Reliability Cost Allocation Methodology includes a sunset provision that requires the NYISO to evaluate the methodology with its stakeholders and to file either a continuation of its existing methodology or a revised methodology for the Commission's

[10] OATT Section 31.5.3.2.1.4 (filed in 2008 as Section 14.2(d) of the OATT).

[11] *See New York Independent System Operator, Inc.,* Order on Rehearing and Compliance, 151 FERC ¶ 61,040 at P 124 (2015) (acknowledging the NYISO's development of a transmission security cost allocation methodology and indicating that the Commission would address the methodology when it is filed by the NYISO); *New York Independent System Operator, Inc., and New York Transmission Owners*, Compliance Filing, Docket Nos. ER13-102-001, -002, -003 at pp 16-17 (September 15, 2014); *New York Independent System Operator, Inc.,* Order on Rehearing and Compliance, 148 FERC ¶ 61,044 at P 298 (2014); *New York Independent System Operator, Inc., and New York Transmission Owners*, Compliance Filing, Docket No. ER13-102-000 at p 56 (October 15, 2013).

[12] As a part of the NYISO's proposed revisions in its October 2015 Reliability-Must-Run compliance filing, the NYISO reviewed revisions to the existing cost allocation methodology with stakeholders on February 25, 2014, November 24, 2014, December 9, 2014, February 3, 2015, September 17, 2015, September 24, 2015, and October 13, 2015. *See New York Independent System Operator, Inc.*, Compliance Filing, Docket Nos. EL15-37-002 and ER16-120-000 at p 60 (October 19, 2016) ("RMR Filing"). As a part of the current filing, the NYISO reviewed the identical revisions (omitting those portions related to the proposed RMR process) with stakeholders on May 16, 2016, May 19, 2016, and May 25, 2016.

approval prior to January 1, 2016, which was the start date of a new cycle for the NYISO's CSPP.[13]

B. NYISO Reliability-Must-Run Proceeding

On February 19, 2015, the Commission directed the NYISO to establish a reliability-must-run ("RMR") process in its OATT to govern "the retention of and compensation to generating units required for reliability, including procedures for designating such resources, the rates, terms and conditions for RMR service, provisions for the allocation of costs of RMR service, and a *pro forma* service agreement for RMR service."[14] On October 19, 2015, the NYISO filed tariff revisions proposing to situate its RMR process within the Gap Solution portion of its reliability planning process.[15] As a result, the NYISO proposed to revise its Reliability Cost Allocation Methodology in Section 31.5.3 of the OATT to allow the NYISO to allocate under its OATT the costs of RMR service. As part of its revisions, the NYISO proposed to modify the Reliability Cost Allocation Methodology to: (i) remove the sunset provision, and (ii) provide for the allocation of the costs of RMR service or regulated transmission solutions that are required to address any type of Reliability Need, including a need resulting from a transmission security issue.[16]

In its April 21, 2016 order, the Commission directed the NYISO to separate its proposed RMR process from the Gap Solution process under its reliability planning process and, in doing so, also rejected the revisions to the Reliability Cost Allocation Methodology as beyond the scope of the RMR proceeding.[17] Specifically, the Commission rejected the proposed revisions that would have: (i) provided cost allocation provisions to address reliability solutions that resolve transmission security violations and (ii) satisfied the NYISO's filing requirement under Section 31.5.3.2.1.6 of the OATT to continue the use of the existing Reliability Cost Allocation Methodology.[18] The Commission directed the NYISO to submit the filing required under Section 31.5.3.2.1.6 of the OATT within 60 days and invited the NYISO to re-file pursuant to Section 205 of the Federal Power Act its proposed revisions to the Reliability Cost Allocation Methodology.[19]

On June 7, 2016, the NYISO filed a compliance filing to address, in part, the Commission's April 21, 2016 order. In the compliance filing, the NYISO proposed to remove

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[13] OATT Section 31.5.3.2.1.6 (filed in June 2008 as Section 14.2(f) of the OATT); *see New York Independent System Operator, Inc.*, Order No. 890 Transmission Planning Compliance Filing, Docket No. OA0852-001 at pp 9-10 (June 18, 2008).

[14] *New York Independent System Operator, Inc.*, Order Instituting Section 206 Proceeding and Directing Filing to Establish Reliability Must Run Tariff Provisions, 150 FERC ¶ 61,116 at P 11 (2015) ("RMR Order").

[15] *RMR Filing* at pp 13-14.

[16] *Id.* at pp 56-68.

[17] *New York Independent System Operator, Inc.*, Order on Compliance and Rehearing, 155 FERC ¶ 61,076 at PP 113 (April 21, 2016) ("RMR Compliance Order").

[18] *Id.* at PP 113-114.

[19] *Id.* at PP 114-115.

the revisions concerning the Reliability Cost Allocation Methodology from Section 6.10 (and from subsequently effective versions of Section 31.5) of the OATT that were rejected in the April 21, 2016 order.[20]

IV. Description of Proposed Tariff Revisions

The NYISO proposes to amend the reliability cost allocation methodology in Attachment Y, OATT Section 31.5, to allocate the costs of regulated transmission solutions that resolve not only resource adequacy needs, but also transmission security violations. The NYISO also proposes to remove the sunset date associated with its existing Reliability Cost Allocation Methodology. The revised methodology will appropriately allocate the costs of a regulated transmission solution eligible for cost allocation under the OATT to those LSEs that contribute to a Reliability Need and, therefore, benefit from that solution. Additionally, the revised methodology remains in compliance with the Commission's six Order No. 1000 regional cost allocation principles.

The NYISO's revised cost allocation methodology is supported by the affidavit of Zachary G. Smith, Director - Transmission Planning for the NYISO, which is included as Attachment V to this letter.

A. Removal of Reliability Cost Allocation Methodology Sunset Provision

The NYISO proposes to continue its existing Reliability Cost Allocation Methodology in Section 31.5.3 of the OATT. Section 31.5.3.2.1.6 of the OATT requires the NYISO to file with the Commission to either continue applying or revise its existing Reliability Cost Allocation Methodology for the planning cycle beginning on January 1, 2016.[21] The NYISO, through its stakeholder process, reviewed its current cost allocation methodology and determined that it should continue this methodology without expiration. The Commission previously accepted the Reliability Cost Allocation Methodology for regulated transmission solutions that resolve resource adequacy issues.[22] The NYISO, therefore, requests that the Commission accept this filing as satisfying its filing requirement set forth in Section 31.5.3.2.1.6 and accept, with the removal of that tariff provision, the NYISO's continued use of the Reliability Cost Allocation

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[20] *New York Independent System Operator, Inc.*, Compliance Filing, Docket No. ER16-120-002 (June 7, 2016).

[21] Section 31.5.3.2.1.6 of the OATT provides, in relevant part: "This cost allocation methodology would be used for any regulated backstop solution identified by the ISO prior to January 1, 2016 or alternative regulated transmission solution selected by the ISO prior to the completion of the planning cycle commencing January 1, 2014, that is required to meet Reliability Needs identified in the RNA. Costs associated with any regulated transmission backstop solution identified by the ISO on or after January 1, 2016 or alternative regulated transmission solution selected by the ISO as part of the planning cycle commencing January 1, 2016 will be allocated according to a methodology, which, after proper consideration within the ISO stakeholder process, will be filed by the ISO for the Commission's approval prior to January 1, 2016, in accordance with the ISO governance process. The filing may provide for a continuation of the foregoing methodology or a revised methodology."

[22] *See New York Independent System Operator, Inc.*, Order No. 890 Transmission Planning Compliance Filing, Docket No. OA0852-001 at pp 9-10 (June 18, 2008).

Methodology without expiration. As described in Sections IV.B.1 and C below, and in Attachment V, the existing resource adequacy cost allocation methodology has been accepted by the Commission and remains just and reasonable because it allocates the costs of solutions to the LSEs that benefit from the reliability solution.

B. The Revised Reliability Cost Allocation Methodology

Building off of the NYISO's existing, Commission-accepted Reliability Cost Allocation Methodology, the NYISO will continue to apply its existing methodology for allocating the costs of a solution to a Reliability Need that arises from resource adequacy issues. If, after addressing the resource adequacy issue, there remains further issues that contribute to the Reliability Need, the NYISO proposes to allocate those costs of the project that are attributable to further reliability issues in the manner described in Parts IV.B.1 through IV.B.4 below.

More precisely, the NYISO will perform the steps to resolve the different types of reliability issues based on the following hierarchy: (i) resource adequacy, (ii) BPTF thermal transmission security, (iii) BPTF voltage security, (iv) dynamic stability, and (v) short circuit.[23] The NYISO will proceed through this hierarchy until all of the costs of the solution have been addressed. The NYISO developed this hierarchy to reflect the level of importance of the reliability issue underlying each of these steps in relation to maintaining system reliability. The NYISO's methodology is consistent with traditional electric planning practice, which begins by providing for resource adequacy with the design and siting of supply resources to provide sufficient resources to service load. This is followed by providing that the transmission system can accommodate the delivery of power from these supply resources to loads without creating thermal overloads and ensuring that there is sufficient voltage and dynamic support for that delivery. Next, the methodology provides for maintaining dynamic system stability on the BPTF. Finally, solutions to exceeding fault current ratings of circuit breakers will be treated as a local matter without cost allocation through the NYISO's tariff.

1. Resource Adequacy Cost Allocation Step

The first step of the revised Reliability Cost Allocation Methodology will continue to be the existing resource adequacy cost allocation methodology described in Part III.A above. The Commission has previously determined that this methodology satisfies its six Order No. 1000 regional cost allocation principles, and this methodology continues to be just and reasonable, as it, among other things, allocates the costs of new transmission facilities to LSEs based on their contribution to the Reliability Need requiring the solution and the benefit that LSEs derive from the solution.[24]

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[23] Proposed OATT, Attachment Y, Section 31.5.3.2.

[24] *See New York Independent System Operator, Inc.*, 143 FERC ¶ 61,059 at PP 311-318 (2013); *New York Independent System Operator, Inc.*, 148 FERC ¶ 61,044 at PP 296-297 (2014).

2. BPTF Transmission Security Cost Allocation Step

Under this step, the NYISO will first allocate the costs for the portion of a regulated transmission solution attributable to a thermal transmission security issue on the BPTFs and then the costs for the portion attributable to a voltage security issue on the BPTFs.

BPTF Thermal Transmission Security Cost Allocation Step

For the portion of a regulated transmission solution attributable to a BPTF thermal transmission security issue, the NYISO will allocate the cost of the solution to those Subzones that contribute to a thermal overload on the BPTFs based on the relative contribution of the Load in each Subzone to the transmission security issue as described below. The methodology is illustrated in an example provided to stakeholders following the May 16, 2016 Electric System Planning Working Group meeting, which is included in Attachment VI to this letter. The use of a Subzone evaluation methodology is consistent with the operation and market design of the NYISO's system and is the most granular level at which the NYISO's billing and settlement system can allocate the costs to LSEs that receive the benefit from the solution.

The NYISO will perform the BPTF thermal transmission security step using the same system modeling that is used in identifying the Reliability Need necessitating the solution, which costs are being allocated.[25] The NYISO will first identify for each load bus in a Subzone a "nodal distribution factor" and "nodal megawatt flow." The "nodal distribution factor" represents the percentage of a Load that flows across the facility subject to the Reliability Need.[26] The sign (positive or negative) of the nodal distribution factor represents the direction of the flow.[27] The "nodal megawatt flow" represents the number of megawatts that flows across the facility subject to the Reliability Need due to the Load.[28] It is calculated by multiplying the amount of Load in megawatts for the bus (the "Nodal Load") by the nodal distribution factor (positive or negative) for the bus.[29]

Based on these determinations, the NYISO will identify which Loads contribute to the overloading of the facility and which help to resolve the overloading of the facility. The Nodal Load for a load bus with a positive nodal distribution factor contributes to the overloading facility and is referred to as a "contributing Load."[30] The nodal megawatt flow for this Load is referred to as "contributing flow."[31] The Nodal Load for a load bus with a negative nodal

[25] Proposed OATT, Attachment Y, Section 31.5.3.2.2.1.

[26] Proposed OATT, Attachment Y, Section 31.5.3.2.2.1.

[27] Proposed OATT, Attachment Y, Section 31.5.3.2.2.1.

[28] Proposed OATT, Attachment Y, Section 31.5.3.2.2.2.

[29] Proposed OATT, Attachment Y, Section 31.5.3.2.2.2.

[30] Proposed OATT, Attachment Y, Section 31.5.3.2.2.3.

[31] Proposed OATT, Attachment Y, Section 31.5.3.2.2.3.

distribution factor helps to resolve the overloading of the facility and is referred to as a "helping Load."[32] The nodal megawatt flow for this Load is referred to as "helping flow."[33]

The NYISO will then determine which of the contributing Loads and helping Loads have a material impact on the Reliability Need. The NYISO will first calculate the "contributing materiality threshold," which represents the percentage of all contributing Load that flows across the overloaded facility.[34] This is calculated by dividing the sum of all contributing flow by the sum of all contributing Load.[35] The NYISO will similarly calculate the "helping materiality threshold," which represents the percentage of all helping Load that flows across the overloaded element.[36] This is calculated by dividing the sum of all helping flow by the sum of all helping Load.[37] For each load bus, the nodal megawatt flow will be considered material if the nodal distribution factor is: (i) greater than or equal to the contributing materiality threshold, or (ii) less than or equal to the helping materiality threshold.[38]

The NYISO will calculate the net material flow for each Subzone as the sum of the material Subzone contributing flow and material Subzone helping flow for that Subzone.[39] Based on the net material flow, the NYISO will calculate the allocated flow for each Subzone.[40] If the net material Subzone flow for a Subzone is positive, the allocated flow is equal to the net material Subzone flow. If the net material Subzone flow for a Subzone is negative or zero, the allocated flow for that Subzone is zero. Based on the net material flow, a Subzone that is contributing to the overload will be allocated costs for the solution to the Reliability Need, whereas a Subzone that is helping to alleviate the overload will not be allocated costs.

The NYISO will then check the reasonableness of the resulting allocation to verify that sufficient contributing flow is being allocated costs. If the total allocated flow is less than a majority of the total contributing flow, represented as 60%, then the contributing materiality threshold will be reduced until the total allocated flow is at least 60% of the total contributing flow.[41]

Finally, the NYISO calculates the allocation percentage for each Subzone by dividing the total allocated flow for each Subzone by the total of all allocated flow in the NYCA.[42]

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[32] Proposed OATT, Attachment Y, Section 31.5.3.2.2.4.

[33] Proposed OATT, Attachment Y, Section 31.5.3.2.2.4.

[34] Proposed OATT, Attachment Y, Section 31.5.3.2.2.3.

[35] Proposed OATT, Attachment Y, Section 31.5.3.2.2.3.

[36] Proposed OATT, Attachment Y, Section 31.5.3.2.2.3.

[37] Proposed OATT, Attachment Y, Section 31.5.3.2.2.4.

[38] Proposed OATT, Attachment Y, Section 31.5.3.2.2.5.

[39] Proposed OATT, Attachment Y, Section 31.5.3.2.2.5.

[40] Proposed OATT, Attachment Y, Section 31.5.3.2.2.6.

[41] Proposed OATT, Attachment Y, Section 31.5.3.2.2.6.

[42] Proposed OATT, Attachment Y, Section 31.5.3.2.2.7.

If a single solution addresses multiple BPTF thermal transmission security issues, the NYISO will calculate weighting factors based on the ratio of the present value of the estimated costs for individual solutions to the costs of resolving each BPTF thermal transmission security issue.[43] The NYISO will apply the weighting factors to the cost allocation calculated for each Subzone for each individual BPTF thermal transmission security issue.[44]

In order to ensure that costs allocated to individual Subzones are commensurate with the benefit, the NYISO will exclude a Subzone from cost allocation if it does not exceed a *de minimis* impact threshold. If a Subzone is assigned a BPTF thermal transmission security cost allocation less than a *de minimis* dollar threshold, that Subzone will not be allocated costs. However, the total *de minimis* Subzones may not exceed 10% of the total BPTF thermal transmission security cost allocation.[45] The *de minimis* dollar threshold would be reduced until the total *de* minimis Subzones do not exceed 10% of the total BPTF thermal transmission security cost allocation. The *de minimis* threshold is initially $10,000.

BPTF Voltage Security Cost Allocation Step

If, after addressing any resource adequacy or BPTF thermal transmission security issues, there remains a BPTF voltage security issue, the NYISO will allocate the costs of addressing the voltage security issue on a Load-ratio share basis to each Subzone to which the substation subject to the violation is connected. This is determined based on the total peak Load for that Subzone.[46] Since transmission system voltage issues are inherently local in nature, it is reasonable to allocate the costs of resolving these issues at the Subzone level, which is the lowest level of granularity at which the NYISO can allocate these costs.

3. Dynamic Stability Cost Allocation Step

If, after completion of the preceding steps in the methodology, there remains a dynamic stability issue, the NYISO will allocate the costs of the portion of the solution attributable to resolving a dynamic stability issue to all Subzones in the NYCA on a Load-ratio share basis.[47] This additional step in the hierarchy is necessary as a regulated transmission solution may be required to address a Reliability Need resulting from dynamic stability issues. Dynamic stability is a systemic issue that can lead to widespread cascading and outages across the whole system. For this reason, the entire NYCA benefits from a solution resolving a dynamic stability issue.

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[43] Proposed OATT, Attachment Y, Section 31.5.3.2.2.8.

[44] Proposed OATT, Attachment Y, Section 31.5.3.2.2.8.

[45] Proposed OATT, Attachment Y, Section 31.5.3.2.2.9. If the total allocation percentage of all *de minimis* Subzones is greater than 10%, then the *de minimis* monetary threshold will be reduced until the total allocation percentage of all *de minimis* Subzones is less than or equal to 10%. *Id.*

[46] Proposed OATT, Attachment Y, Section 31.5.3.2.3.

[47] Proposed OATT, Attachment Y, Section 31.5.3.2.4.

4. Short Circuit Issues

Finally, if, after the completion of all of the prior steps in the methodology, there remains a short circuit issue, the short circuit issue will be deemed a local issue and the related costs will not be allocated under the OATT.[48] Despite not receiving cost allocation under the OATT, the NYISO proposes to insert this final step for completeness of the cost allocation process. It clarifies how the NYISO will address a Reliability Need that results from a short circuit issue. Short circuit issues, or fault current issues, are inherently local and driven primarily by local generators, transmission system configuration, and transmission system impedance. Regional load and power transfers do not contribute to fault current and, therefore, should not be allocated costs for Reliability Needs related to fault current.

C. Consistency of Revised Reliability Cost Allocation Methodology with Order No. 1000 Cost Allocation Principles

Order No. 1000 required a method, or set of methods, for allocating the costs of new transmission facilities selected by the NYISO for purposes of allocating these costs under the NYISO OATT. The Commission established the Order No. 1000 six regional cost allocation principles that must be satisfied by a cost allocation methodology.[49] The Commission has previously determined that the NYISO's existing Reliability Cost Allocation Methodology complies with these six regional cost allocation principles.[50] As described above, the NYISO's proposed enhancements to the existing Reliability Cost Allocation Methodology would enable the NYISO to allocate the costs of transmission solutions to Reliability Needs based upon not only resource adequacy but also transmission security issues. As explained below, the Reliability Cost Allocation Methodology, as revised in this filing, remains consistent with the Commission's six regional cost allocation principles and constitutes a just and reasonable methodology in allocating the cost of regulated transmission solutions to Reliability Needs.

Regional Principle #1

Regional Principle #1 provides that

> The cost of transmission facilities must be allocated 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, a regional transmission planning process may consider benefits including, but not limited to, the extent to which transmission facilities, individually or in the aggregate, provide for maintaining

[48] Proposed OATT, Attachment Y, Section 31.5.3.2.5.

[49] Order No. 1000 at PP 586, 603.

[50] *New York Independent System Operator, Inc.*, 148 FERC ¶ 61,044 at PP 296-297 (2014) (finding NYISO's cost allocation methodology for its reliability planning process as compliant with Regional Principle #4).

> reliability and sharing reserves, production cost savings and congestion relief, and/or meeting Public Policy Requirements.[51]

The NYISO's revised Reliability Cost Allocation Methodology maintains a "beneficiaries pay" approach and is compliant with Regional Principle #1. Under the NYISO's revised needs-based methodology, the NYISO will allocate under each step in the methodology only that portion of the regulated transmission solution to a Reliability Need that is attributable to the specific reliability issue addressed by that step. Within each step of the methodology, the NYISO will only allocate the costs of the solution to those LSEs that contribute to creating the reliability issue and, likewise, benefit from the solution. For the resource adequacy step, costs are appropriately allocated to LSEs at the Load Zone level. Resource adequacy is modeled based upon Load Zones, at the major interfaces, and resource adequacy Reliability Needs arise as LSEs obtain resources and serve customers within these zones. For the transmission security steps, the NYISO proposes to allocate costs to LSEs that contribute to such Reliability Needs at the Subzone level, as transmission security analysis uses nodal models that are sufficiently discrete to identify Subzonal contributions. The Subzone level is the lowest level of granularity at which the NYISO can allocate such costs under its billing and settlement software and procedures. Finally, for the dynamic stability step, the NYISO proposes to allocate the costs to LSEs across the NYCA because a dynamic stability Reliability Need is a system-wide stability issue impacting all LSEs.

Regional Principle #2

Regional Principle # 2 requires that "those that receive no benefit from transmission facilities, either at present or in a likely future scenario, must not be involuntarily allocated any of the costs of those transmission facilities."[52] The methodology will not allocate costs to customers that receive no benefit from the transmission facilities at issue. As described in response to Regional Principle #1, the methodology only allocates the costs of transmission solutions to LSEs that contribute to the Reliability Need and, therefore, that benefit from the solution to that need. Therefore, the NYISO's revised needs-based cost allocation methodology for the regional planning process is compliant with Regional Principle #2.

Regional Principle #3

Regional Principle # 3 requires that:

> If a benefit to cost threshold is used to determine which transmission facilities have sufficient net benefits to be selected in a regional transmission plan for the purpose of cost allocation, it must not be so high that transmission facilities with significant positive net benefits are excluded from cost allocation. A public utility transmission provider in a transmission planning region may choose to use such a threshold to account for uncertainty in the calculation of benefits and costs. If

[51] Order No. 1000 at P 622.

[52] Order No. 1000 at P 637.

> adopted, such a threshold may not include a ratio of benefits to costs that exceeds 1.25 unless the transmission planning region or public utility transmission provider justifies and the Commission approves a greater ratio.[53]

The NYISO's revised cost allocation methodology for the regional planning process complies with Regional Principle #3, as the methodology does not use a "benefit to cost" threshold.

Regional Principle #4

Regional principle #4 requires that:

> The allocation method for the cost of a transmission facility selected in a regional transmission plan must allocate costs solely within that transmission planning region unless another entity outside the region or another transmission planning region voluntarily agrees to assume a portion of those costs. However, the transmission planning process in the original region must identify consequences for other transmission planning regions, such as upgrades that may be required in another region and, if the original region agrees to bear costs associated with such upgrades, then the original region's cost allocation method or methods must include provisions for allocating the costs of the upgrades among the entities in the original region.[54]

The NYISO does not propose in this filing any changes to its tariff requirements applicable to Regional Principle #4. Specifically, as previously accepted by the Commission, the NYISO's revised Reliability Cost Allocation Methodology continues to not provide for the allocation of the costs of regulated transmission projects to entities outside of the NYCA. Nor has the NYISO proposed revisions to its existing tariff requirements, which address identifying the consequences of the reliability transmission project on other regions or amended its existing tariff provision stating that the NYISO will not bear the cost of required upgrades in another region.[55] Accordingly, the NYISO's revised Reliability Cost Allocation Methodology complies with Regional Principle #4.

Regional Principle #5

Regional Principle # 5 requires that:

> The cost allocation method and data requirements for determining benefits and identifying beneficiaries for a transmission facility must be transparent with

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[53] Order No. 1000 at P 646.

[54] Order No. 1000 at P 657.

[55] *See* OATT Attachment Y Section 31.2.2.7. The Commission accepted these tariff requirements as compliant with regional principle #4. *New York Independent System Operator, Inc.*, Order on Rehearing and Compliance, 148 FERC ¶ 61,044 at P 335 (2014).

> adequate documentation to allow a stakeholder to determine how they were applied to a proposed transmission facility.[56]

The revised methodology in Section 31.5.3.2 of the OATT provides transparent information on the methodology and corresponding data requirements for determining benefits and identifying beneficiaries. The NYISO provides sufficient information for stakeholders to determine how the methodology and requirements were applied for a specific project. As an initial matter, the NYISO has not amended its existing Reliability Cost Allocation Methodology as it relates to resource adequacy, which step has already been determined by Commission to satisfy Regional Principle #5. The NYISO will administer the new cost allocation steps proposed in this filing in the same transparent manner as the existing step. The revised tariff language in Section 31.5.3.2 includes detailed descriptions of the proposed steps in the methodology, including the NYISO's process steps and formulas for administering them. In addition, the NYISO has reviewed examples applying these formulas with stakeholders, which presentation material is available on the NYISO's website.[57] Finally, the NYISO presents the results of its analysis to stakeholders and posts them on its website. Accordingly, the NYISO's revised cost allocation methodology for the regional planning process complies with Regional Principle #5.

Regional Principle #6

Regional principle # 6 requires that:

> A transmission planning region may choose to use a different cost allocation method for different types of transmission facilities in the regional transmission plan, such as transmission facilities needed for reliability, congestion relief, or to achieve Public Policy Requirements. Each cost allocation method must be set out clearly and explained in detail in the compliance filing for this rule.[58]

The NYISO's proposed tariff revisions in this filing do not amend the NYISO's existing approach, previously accepted by the Commission, of using different cost allocation methodologies for its reliability planning process (Section 31.5.3 of the OATT), economic planning process (Section 31.5.4 of the OATT), and Public Policy Transmission Planning Process (Section 31.5.5 of the OATT). The Commission has previously determined that the aforementioned methodologies satisfy the requirement to be set out clearly and explained in detail. As described in response to Regional Principle #5, the NYISO has described its proposed

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[56] Order No. 1000 at P 668.

[57] *See, e.g., Transmission Security Cost Allocation* Presentation (September 17, 2015 reposted on May 18, 2016 at stakeholder request) attached hereto and available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_espwg/meeting_materials/2016-05-16/TS_cost_allocation_ESPWG_2015-09-17.pdf ; *Transmission Security Cost Allocation* Presentation (September 24, 2015) available at: http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_espwg/meeting_materials/2015-09-24/TS_cost_allocation_ESPWG_2015-09-24.pdf.

[58] Order No. 1000 at P 685.

revisions to the Reliability Cost Allocation Methodology in detail in Section 31.5.3.2 of the OATT, including the detailed process steps and formulas and the reasons for each. Therefore, the NYISO's revised cost allocation methodology for the regional planning process remains compliant with Regional Principle #6.

D. Other Revisions to Cost Allocation Provisions

The NYISO proposes the following additional clarifications and enhancements related to the NYISO's Reliability Cost Allocation Methodology:

- Include in Section 31.5.3.1.3 of the OATT a reference to Subzones, along with Load Zones, as the new transmission security cost allocation methodologies are allocated on a Subzone basis.[59]

- Remove Section 31.5.3.2.1.4 of the OATT, which contains the placeholder for the NYISO, in conjunction with stakeholders, to develop a step in the Reliability Cost Allocation Methodology to allocate costs for transmission solutions to a Reliability Need based upon transmission security issues.

- Relocate from Section 31.5.3.2.1.5 to Section 31.5.1.3 of the OATT language indicating that costs related to deliverability of a resource are addressed under the NYISO's deliverability procedures in Attachment S of the OATT.[60]

E. Rate Schedule 10

Rate Schedule 10 of the OATT establishes the Reliability Facilities Charge pursuant to which the NYISO recovers the costs of those regulated transmission projects eligible for cost allocation and recovery under the OATT. The NYISO's revisions to its Reliability Cost Allocation Methodology would allocate costs of transmission security violations on a Subzone basis. The NYISO proposes minor, conforming revisions to the cost recovery formulas in Section 6.10.3 of the OATT to reference both Load Zones and Subzones, as applicable.

V. Proposed Effective Date

The NYISO requests a waiver of the Commission's prior notice requirements[61] to make the removal of the sunset provision of the Reliability Cost Allocation Methodology in OATT Section 31.5.3.2.1.6 effective on January 1, 2016.[62] There is good cause for a waiver under Section 35.3 of the Commission's regulations. The January 1, 2016 effective date will provide for the uninterrupted effectiveness of the NYISO's resource adequacy component of the

[59] Proposed OATT, Attachment Y, Section 31.5.3.1.3.

[60] Proposed OATT, Attachment Y, Section 31.5.1.3.

[61] 18 C.F.R. §§ 35.3 and 35.11.

[62] *See Central Hudson Gas and Electric Corp.*, 60 FERC ¶ 61,106 at PP 338-339 (1992), *reh'g denied*, 61 FERC ¶ 61,089 (1992).

Reliability Cost Allocation Methodology following the December 31, 2015 sunset date. The NYISO is not proposing in this filing any revision to the resource adequacy component of the methodology that was previously approved by the Commission. Stakeholders have been on notice regarding this proposed change since at least October 19, 2015 when the NYISO filed with the Commission to remove this provision as part of its RMR compliance filing. Moreover, no Market Participant will be prejudiced by this request as there are no Developers currently eligible to allocate the costs of a regulated transmission solution in the reliability planning process, and the methodology would not be applied unless and until a Developer becomes eligible for such allocation.

The NYISO requests that the remaining revisions to the Reliability Cost Allocation Methodology become effective 60 days after the date of this filing letter—*i.e.,* August 19, 2016. The NYISO is currently conducting its reliability planning process for the 2016 cycle with the commencement of a Reliability Needs Assessment. Accordingly, approval of the new transmission security steps by August 19, 2016 will be timely for allocating the costs of any required solutions to Reliability Needs identified during this planning cycle.

VI. Requisite Stakeholder Approval

The NYISO and its stakeholders collaboratively developed the proposed tariff revisions at meetings of the Electric System Planning Working Group in February, March, and April 2015 and, again, in May 2016. A majority of the stakeholder Operating Committee approved the proposed tariff revisions by a show of hands vote on May 19, 2016, and a majority of the stakeholder Management Committee approved the proposed revisions by a show of hands vote on May 25, 2016. On June 14, 2016, the NYISO's Board of Directors approved a motion directing the NYISO to file the proposed tariff revisions.

VII. Service List

The NYISO will send an electronic copy of this filing to the official representative of each of its customers, to each participant on its stakeholder committees, to the New York Public Service Commission and the New Jersey Board of Public Utilities. In addition, the complete public version of this filing will be posted on the NYISO's website at www.nyiso.com.

VIII. Conclusion

WHEREFORE, for the foregoing reasons, the New York Independent System Operator, Inc. respectfully requests that the Commission accept the proposed tariff changes identified in this filing with an effective date of January 1, 2016, for the removal of Section 31.5.3.2.1.6 of the OATT and an effective date of 60 days following the date of this filing for the remaining proposed revisions.

Respectfully submitted,

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