Attachment II

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 regulated transmission solutions to Reliability Needs, Generators operating under an RMR Agreement as a Gap Solution to Reliability Needs, regulated transmission responses to congestion identified in the CARIS, and regulated Public Policy Transmission Projects whether proposed by a Responsible Transmission Owner or a Transmission Owner or Other Developer. The cost allocation principles and methodology for: (i) regulated transmission solutions to Reliability Needs or Generators operating under an RMR Agreement are contained in Sections 31.5.3.1 and 31.5.3.2 of this Attachment Y, (ii) regulated transmission responses to congestion identified in the CARIS are contained in Sections 31.5.4.1 and 31.5.4.2 of this Attachment Y, and (iii) regulated Public Policy Transmission Projects are contained in Sections 31.5.5 and 31.5.6 of this Attachment Y.

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 CARIS, or to Other Public Policy 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 and merchant transmission projects. Interconnection costs are determined and allocated in accordance with Attachment P, Attachment S, Attachment X and

Attachment Z of the ISO OATT. Costs related to the deliverability of a resource will be addressed under the ISO's deliverability procedures in Attachment S 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

With the exception of Generators operating under an RMR Agreement as a Gap Solution to a Reliability Need, 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 associated rate schedules, as applicable, for any transmission project proposed to satisfy an identified Reliability Need, Generator operating under an RMR Agreement as a Gap Solution to a Reliability Need, regulated economic transmission project, or Public Policy Transmission Project that is determined by the ISO to be eligible under Sections 31.2, 31.3, or 31.4, 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 associated rate schedules. The ISO's share of the cost of an Interregional Transmission Project selected pursuant to this Attachment Y to meet a Reliability Need, congestion identified in the CARIS, 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 No. 1000

31.5.2.1 In compliance with Commission Order No. 1000, the ISO shall implement the specific cost allocation methodology in Section 31.5.3.2, 31.5.4.4, and 31.5.5.4 in accordance with the following Regional Cost Allocation Principles ("Order No. 1000 Regional Cost Allocation Principles"):

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.

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 31.5.7 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 31.5.7 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 31.5.7.1.

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: (i) a regulated transmission solution to an identified Reliability Need, including the ISO's share of the costs of an Interregional Transmission Project proposed as a regulated transmission solution to an identified Reliability Need allocated in accordance with Section 31.5.7 of this Attachment Y, and (ii) a Generator operating under an RMR Agreement as a Gap Solution to an identified Reliability Need.

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: (i) a Responsible Transmission Owner's regulated backstop solution or its transmission solution identified pursuant to Section 31.2.11.9 as a Gap Solution to be implemented to address a Reliability Need, (ii) 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 an identified Reliability Need or identified pursuant to Section 31.2.11.9 as a Gap Solution to be implemented to address a Reliability Need, or (iii) a Generator operating under an RMR Agreement as a Gap Solution to an identified Reliability Need.

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 project that is, pursuant to Section 25.7.12 of Attachment S to the ISO

OATT, paid for with funds previously committed by or collected from Developers for the installation of System Deliverability Upgrades required for the interconnection of generation or merchant 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, local transmission 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) local transmission security pursuant to Section 31.5.3.2.4, (v) dynamic stability pursuant to Section 31.5.3.2.5, and (vi) short circuit pursuant to Section 31.5.3.2.6.

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:

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

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

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:

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

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 Local Transmission 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, the 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 non-BPTF thermal security issue or a non-BPTF voltage security issue and the solution is an RMR Agreement, the ISO will allocate the costs of resolving the local security issue(s) to the Subzones that contribute to the local security issue(s).

31.5.3.2.4.1 The Subzone in which the receiving terminal of the non-BPTF facility is located is assigned cost responsibility for the megawatt portion of the RMR Agreement needed to eliminate the non-BPTF thermal issue(s), defined as LocalThermalMW. If multiple non-BPTF thermal issues in multiple Subzones are addressed by the RMR Agreement, the LocalThermalMW will be allocated on a Load-ratio share to each identified Subzone as follows:

$$Local\ Thermal\ Cost\ Alloction_j = \frac{Coincident\ Peak_j}{\sum_{k=1}^{m} Coincident\ Peak_k} \times \frac{LocalThermalMW}{Soln\_Size}$$

Where *j* is for each Subzone; *m* is for the total number of Subzones that are subject to local thermal cost allocation; Coincident Peak is for the total peak load for each Subzone; LocalThermalMW is for the megawatt portion of the RMR Agreement needed to eliminate the non-BPTF thermal issue(s); and Soln_Size represents the total compensatory MW addressed by the RMR Agreement.

31.5.3.2.4.2 If there remains a voltage issue after consideration of LocalThermalMW, then the cost responsibility for the megawatt portion of the RMR Agreement necessary to resolve the voltage issue(s), defined as LocalVoltageMW, will be allocated on a Load-ratio share to each Subzone to which each bus with a voltage issue is connected, as follows:

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

Where *j* is for each Subzone; *m* is for the total number of Subzones that are subject to local voltage cost allocation; Coincident Peak is for the total peak Load for each Subzone; LocalVoltageMW is for the megawatt portion of the RMR Agreement necessary to resolve the voltage issue(s); and Soln_Size represents the total compensatory MW addressed by the RMR Agreement.

31.5.3.2.5 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, BPTF voltage security cost allocation in accordance with Section 31.5.3.2.3, and local transmission security cost allocation in accordance with Section 31.5.3.2.4, 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.

31.5.3.2.6 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 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 regulated economic transmission projects ("RETPs") proposed in response to congestion identified in the CARIS.

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 backstop 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 backstop solutions when the implementation of the regulated backstop 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 backstop solutions for economic reasons.

Nothing in this Attachment Y mandates the implementation of any project in response to the congestion identified in the CARIS.

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 CARIS.

31.5.4.2.2 Potential impacts unrelated to addressing the identified congestion shall not be considered for the purpose of cost allocation for RETPs.

31.5.4.2.3 Projects analyzed hereunder as proposed RETPs 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 tariff for a RETP 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 RETP 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 RETP 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 RETP over a ten-year period commencing with the proposed commercial operation date for the project. The Developer of each project will pay the cost incurred by the ISO to conduct the ten-year benefit/cost analysis of its project. The ISO, in conjunction with the ESPWG, will develop methodologies for extending the most recently completed CARIS database as necessary to evaluate the benefits and costs of each proposed RETP.

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 project, measured for the first ten years from the proposed commercial operation 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, 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 commercial operation 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 commercial operation 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 project must exceed its cost measured over the first ten years from the proposed commercial operation 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 project, for information purposes only, in accordance with Section 31.3.1.3.5, for the applicable metric. These additional metrics shall include those that measure reductions in LBMP load costs, changes to generator payments, ICAP costs, Ancillary Service costs, emissions costs, and losses. 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, and alternate resource and energy efficiency scenarios. 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 RETP 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 RETP, including the ISO's share of the costs of an Interregional Transmission Project proposed as a RETP allocated in accordance with Section 31.5.7 of this Attachment Y.

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 commercial operation date for the project. The ISO, in conjunction with the ESPWG, will develop methodologies for extending the most recently completed CARIS database as necessary for this purpose.

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 commercial operation 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 commercial operation 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 commercial operation 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 RETP over the ten-year period commencing with the project's commercial operation 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 commercial operation 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;

$\mathrm{TCCRevImpact}_{y,z}$ 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 RETP 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 RETP 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 RETP will be performed prior to the commencement of the ten-year period that begins with the project's commercial operation 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 developer should bear all or part of the cost of any overruns**.**

31.5.4.4.6 The Commission must approve the cost of a proposed RETP for that cost to be recovered through the ISO OATT. The developer's filing with the Commission must be consistent with the project proposal evaluated by the ISO under this Attachment Y 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 RETP for comment. 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 completion of the review by the ESPWG and TPAS of the project benefit/cost analysis, the ISO's analysis reflecting any revisions resulting from the TPAS and ESPWG review shall be forwarded to the Business Issues Committee and Management Committee for discussion and action.

31.5.4.5.2 Following the Management Committee vote, the ISO's project benefit/cost analysis and beneficiary determination will be forwarded, with the input of the Business Issues Committee and Management Committee, to the ISO Board for review and action. 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 a proposed project. 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 RETP 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 RETP 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 the project.

31.5.4.6.4 If the proposed RETP meets the required vote in favor of implementing 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 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, whether the developer has provided any formal indication to the ISO as to the future development of the project.

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 regulated Public Policy Transmission Projects. 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 RETPs proposed in response to congestion identified in the CARIS.

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, (4) a transmission project identified pursuant to Section 31.2.11.9 as a Gap Solution to be implemented to address a Reliability Need, or (5) a Generator operating under an RMR Agreement as a Gap Solution to an identified Reliability Need. A regulated economic transmission solution proposed in response to congestion identified in the CARIS, and 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.

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 Public Policy Transmission Projects.

31.5.5.2.2 Projects analyzed hereunder as Public Policy Transmission 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 Developer of a Public Policy Transmission Project will be eligible for cost allocation in accordance with the process set forth in Section 31.5.5.4 when its project is selected by the ISO as the more efficient or cost effective regulated Public Policy Transmission Project; *provided, however,* that if the appropriate federal, state, or local agency(ies) rejects the selected project's necessary authorizations, or such authorizations are withdrawn, the costs the Developer is eligible to recover under Section 31.4.12.1 shall be allocated in accordance with Section 31.5.5.4.3, except as otherwise determined by the Commission. The Developer of the selected regulated transmission solution may recover its costs in accordance with Section 31.5.6.

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 31.5.7 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 31.4.2.1 through 31.4.2.3, 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 methodology accepted by the Commission.

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 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, the Developer may submit to the NYPSC for its consideration – no later than 30 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 to review the Developer's proposed cost allocation methodology and to inform the Developer regarding whether it supports the methodology.

31.5.5.4.2.2. If the NYPSC supports the proposed cost allocation methodology, the Developer 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 Developer 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 the proposed cost allocation methodology, then the Developer 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 Developer that it does not support the methodology.

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, the Developer 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 Developer 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 Developer 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 Developer 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 Developer elects to use the load ratio share cost allocation methodology referenced below in Section 31.5.5.4.3, the Developer 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 31.4.2.3(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 Cost Recovery for Regulated Projects

Responsible Transmission Owners, Transmission Owners and Other Developers will be entitled, if eligible for cost recovery under Section 31.2 of this Attachment Y, to full recovery of all reasonably incurred costs, including a reasonable return on investment and any applicable incentives, related to the development, construction, operation and maintenance of regulated transmission solutions, including transmission Gap Solutions, proposed or undertaken pursuant to the provisions of this Attachment Y to meet a Reliability Need. If a Market Participant's Generator is operating under an RMR Agreement as a Gap Solution, the Market Participant will be paid in accordance with Rate Schedule 8 of the ISO Services Tariff, and the ISO will recover costs related to RMR Agreements from LSEs in accordance with Schedule 14 of the ISO OATT. Transmission Owners and Other Developers will be entitled to recovery of costs associated with the implementation of a regulated economic transmission project ("RETP") in accordance with the provisions of Section 31.5.6 of this Attachment Y. Developers will be entitled to recover the costs, to the extent permitted under Sections 31.4 and 31.5.6.5 of this Attachment Y, associated with the implementation of a regulated Public Policy Transmission Project in accordance with the requirements in Section 31.5.6.5 of this Attachment Y.

31.5.6.1 The Responsible Transmission Owner, Transmission Owner or Other Developer will receive cost recovery for a regulated transmission solution it undertakes to meet a Reliability Need pursuant to Section 31.2 of this Attachment Y that is subsequently halted in accordance with the criteria established pursuant to Section 31.2.8.2 of this Attachment Y. Such costs will include reasonably incurred costs through the time of cancellation, including any forward commitments made.

31.5.6.2 The Responsible Transmission Owner, Transmission Owner or Other Developer will recover its costs described in this Section 31.5 incurred with respect to the implementation of a regulated transmission solution to Reliability Needs, including a transmission Gap Solution, in accordance with the provisions of Rate Schedule 10 of this ISO OATT, or as determined by the Commission. Provided further that cost recovery for regulated transmission projects undertaken by a Transmission Owner pursuant to this Attachment Y shall be in accordance with the provisions of the NYISO/TO Reliability Agreement.

31.5.6.3 If a Market Participant's Generator is operating under an RMR Agreement as a Gap Solution, the Market Participant will be paid in accordance with Rate Schedule 8 of the ISO Services Tariff. The ISO will recover costs related to RMR Agreements from LSEs in accordance with Schedule 14 of the ISO OATT. With the exception of a Generator operating under an RMR Agreement as a Gap Solution, costs related to non-transmission regulated solutions to Reliability Needs 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 Except as otherwise provided in the Gap Solution process in Section 31.2.11 of this Attachment Y, 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.

31.5.6.4 For a regulated economic transmission project that is approved pursuant to Section 31.5.4.6 of this Attachment Y, the Transmission Owner or Other Developer shall have the right to make a filing with the Commission, under Section 205 of the Federal Power Act, for approval of its costs associated with implementation of the project. The filing of the Transmission Owner or Other

Developer must be consistent with its project proposal made to and evaluated by the ISO under Section 31.5.4 of this Attachment Y. Costs will be recovered when the project is completed pursuant to a rate schedule filed with and accepted by the Commission in accordance with the cost recovery requirements set forth in this Section, or as otherwise determined by the Commission. Upon request by NYPA, the ISO will make a filing on behalf of NYPA.

31.5.6.5 For a regulated Public Policy Transmission Project, the Developer shall have the right to make a filing with the Commission under Section 205 of the Federal Power Act, for approval of its costs eligible for recovery under Section 31.4 and this Section 31.5.6.5.

31.5.6.5.1 The Developer of a Public Policy Transmission Project selected by the ISO as the more efficient or cost-effective Public Policy Transmission Project will be entitled to full recovery of all reasonably incurred costs, including a reasonable return on investment and any applicable incentives, related to the development, construction, operation, and maintenance of the selected Public Policy Transmission Project. Such cost recovery will include reasonable costs incurred by the Developer to provide a more detailed study or cost estimate for such project 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. The filing of the Developer must be consistent with its project proposal submitted to, evaluated by and selected by the ISO under Section 31.4 of this Attachment Y. The period for cost recovery, if any cost recovery is approved, will be determined by the Commission and will begin if and when the project is completed, or as otherwise determined by the Commission.

31.5.6.5.2 If the appropriate federal, state or local agency(ies) either rejects a necessary authorization, or approves and later withdraws authorization, for the selected Public Policy Transmission Project, all of the necessary and reasonable costs incurred and commitments made up to the final federal, state or local regulatory decision, including reasonable and necessary expenses incurred to implement an orderly termination of the project, will be recoverable by the Developer. The period for cost recovery will be determined by the Commission and will begin as determined by the Commission.

31.5.6.5.3 Upon request by NYPA, the ISO will make a filing on behalf of NYPA under this Section 31.5.6.5.

31.5.6.6 To the extent that Incremental TCCs are created as a result of a regulated economic transmission project that has been approved for cost recovery under the NYISO Tariff, those Incremental TCCs that can be sold will be auctioned or otherwise sold by the ISO. The ISO shall determine the amount of Incremental TCCs that may be awarded to an expansion in accordance with the provisions of Section 19.2.2 of Attachment M of the ISO OATT. The ISO will use these revenues to offset the revenue requirements for the project. The Incremental TCCs shall continue to be sold for the depreciable life of the project, and the revenues offset will commence upon the first payment of revenues related to a sale of Incremental TCCs on or after the charge for a specific RETP is implemented.

31.5.7 Cost Allocation for Eligible Interregional Transmission Projects

31.5.7.1 Costs of Approved Interregional Transmission Projects

The cost allocation methodology reflected in this Section 31.5.7.1 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 31.5.7 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 31.5.7.1(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

31.5.7.2 Other Cost Allocation Arrangements

(a) Except as provided in Section 31.5.7.2(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.

31.5.7.3 Filing Rights

Nothing in this Section 31.5.7 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 31.5.7.

31.5.7.4. Merchant Transmission and Individual Transmission Owner Projects

Nothing in this Section 31.5.7 shall preclude the development of Interregional Transmission Projects that are funded solely by merchant transmission developers or by individual transmission owners.

31.5.7.5 Consequences to Other Regions from Regional or Interregional Transmission Projects

Except as provided herein in Sections 31.5.7.1 and 31.5.7.2, 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.

31.11 Appendix H – Form of Operating Agreement

FORM OF OPERATING AGREEMENT

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OPERATING AGREEMENT

THIS OPERATING AGREEMENT (“Agreement”) is made and entered into this ___ day of _______ 20__, by and between ______________, a non-incumbent transmission owner organized and existing as a [corporate description] under the laws of the State/Commonwealth of ___________ (“NTO”), and the New York Independent System Operator, Inc., a not-for-profit corporation organized and existing under the laws of the State of New York (“ISO”). The NTO and the ISO each may be referred to as a “Party” or collectively referred to as the “Parties.”

WITNESSETH:

WHEREAS, the ISO is an independent system operator that is responsible under its Open Access Transmission Tariff (“ISO OATT”) and its Market Administration and Control Area Services Tariff (“ISO Services Tariff”) as they may be amended from time to time (collectively, “ISO Tariffs”), and the ISO Related Agreements, filed with and accepted by the Federal Energy Regulatory Commission (“Commission”), for providing non-discriminatory, open access transmission service, maintaining reliability, performing system planning, and administering competitive wholesale markets for energy, capacity, and ancillary services in New York State;

WHEREAS, the NTO is the owner of certain transmission facilities specified herein that are integrated with the NYS Transmission System and the NTO has fiduciary responsibilities to its investors to assure, among other things, the receipt of adequate revenues to maintain its transmission facilities, a reasonable rate of return on its transmission facilities, and to provide for recovery of the capital invested in its transmission facilities;

WHEREAS, the NTO has executed, along with this Agreement, the Independent System Operator Agreement ("ISO Agreement") and has executed a Service Agreement(s) as a Transmission Owner for purposes of the ISO Tariffs;

WHEREAS, the ISO will exercise ISO Operational Control over certain of the NTO's transmission facilities classified as "NTO Transmission Facilities Under ISO Operational Control";

WHEREAS, the NTO and ISO have agreed to enter into this Agreement for the purpose of the NTO authorizing the ISO to exercise, and the ISO assuming, ISO Operational Control over the NTO Transmission Facilities Under ISO Operational Control in accordance with the requirements set forth in this Agreement, the ISO Tariffs, and the ISO Related Agreements, as applicable;

WHEREAS, the NTO will continue to own and be responsible for the physical operation, modification and maintenance of its NTO Transmission Facilities Under ISO Operational Control; and

WHEREAS, the ISO OATT will provide for the payment by Transmission Customers for Transmission Service at rates designed to enable the NTO to recover its revenue requirement to the extent allowed, accepted, or approved by FERC;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the Parties do hereby agree with each other, for themselves and their successors and assigns, as follows:

ARTICLE 1.0: DEFINITIONS

1.01 Capitalized Terms

Capitalized terms that are not otherwise defined herein shall have the meaning set forth in the definitions contained in Article 1 of the ISO Agreement, as it existed on the date this Agreement is signed by the Parties. Those definitions contained in Article 1 of the ISO Agreement are hereby incorporated by reference in their entirety into this Agreement; *provided, however*, that an NTO shall be a Transmission Owner for purposes of the ISO Tariffs and this Agreement notwithstanding the definition of Transmission Owner contained in the ISO Agreement related to the ownership of 100 circuit miles of transmission in New York State and becoming a signatory to the ISO/TO Agreement. Modifications to such definitions in the ISO Agreement shall apply to this Agreement only if the Parties to this Agreement agree in writing pursuant to Section 6.14 below.

ARTICLE 2.0: RESPONSIBILITIES OF THE NTO

2.01 Transmission Facilities

The NTO owns certain transmission facilities over which the ISO will have day-to-day operational control to maintain these facilities in a reliable state, as defined by the Reliability Rules and all other applicable reliability rules, standards and criteria, and in accordance with the ISO Tariffs, ISO Related Agreements and ISO Procedures ("ISO Operational Control"). These NTO facilities shall be classified as "NTO Transmission Facilities Under ISO Operational Control," and are listed in Appendix A-1 of this Agreement. The NTO also will be responsible for providing notification to the ISO with respect to actions related to certain other transmission facilities. These facilities shall be classified as "NTO Transmission Facilities Requiring ISO Notification," and are listed in Appendix A-2 of this Agreement. Transmission facilities may be added to, or deleted from, the lists of facilities provided in Appendices A-1 and A-2 herein by mutual written agreement of the ISO and the NTO owning and controlling such facilities. Currently listed facilities will be posted on the ISO's OASIS.

2.02 Transmission System Operation

The NTO shall be responsible for ensuring that all actions related to the operation, maintenance and modification of its facilities that are designated as NTO Transmission Facilities Under ISO Operational Control and NTO Transmission Facilities Requiring ISO Notification are performed in accordance with the terms of this Agreement, all Reliability Rules and all other applicable reliability rules, standards and criteria, all operating instructions, ISO Tariffs, ISO Procedures, and any transmission interconnection agreement(s) for its facilities.

2.03 Local Area Transmission System Facilities

Transmission system facilities not designated as NTO Transmission Facilities Under ISO Operational Control or as NTO Transmission Facilities Requiring ISO Notification shall be collectively known as “Local Area Transmission System Facilities” and are listed in Appendix A-3 of this Agreement. Transmission facilities may be added to, or deleted from, the list of facilities provided in Appendix A-3 herein by mutual written agreement of the ISO and the NTO owning and controlling such facilities. The NTO shall have sole responsibility for the operation of its Local Area Transmission System Facilities, provided, however, that such operation shall comply with all Reliability Rules and ISO Tariffs as applicable, and all other applicable reliability rules, standards and criteria, and shall not compromise the reliable and secure operation of the NYS Transmission System. The NTO shall promptly comply to the extent practicable with a request from the ISO, or from the Transmission Owner(s) to which its facilities are interconnected (“Interconnecting Transmission Owner(s)” or “ITO(s)”), to take action with respect to coordination of the operation of its Local Area Transmission System Facilities.

2.04 Safe Operations

Notwithstanding any other provision of this Agreement, an NTO may take, or cause to be taken, such action with respect to the operation of its facilities as it deems necessary to maintain Safe Operations. To ensure Safe Operations, the local operating rules of the ITO(s) shall govern the connection and disconnection of generation with NTO transmission facilities. Safe Operations include the application and enforcement of rules, procedures and protocols that are intended to ensure the safety of personnel operating or performing work or tests on transmission facilities.

2.05 Local Control Center, Metering and Telemetry

The NTO shall operate, pursuant to ISO Tariffs, ISO Procedures, Reliability Rules and all other applicable reliability rules, standards and criteria on a twenty-four (24) hour basis, a suitable local control center(s) with all equipment and facilities reasonably required for the ISO to exercise ISO Operational Control over NTO Transmission Facilities Under ISO Operational Control, and for the NTO to fulfill its responsibilities under this Agreement. Operation of the NYS Power System is a cooperative effort coordinated by the ISO control center in conjunction with local control centers and will require the exchange of all reasonably necessary information. The NTO shall provide the ISO with Supervisory Control and Data Acquisition ("SCADA") information on facilities listed in Appendices A-1 and A-2 herein as well as on generation and merchant transmission resources interconnected to the NTO's transmission facilities pursuant to the ISO OATT.

The NTO shall provide metering data for its transmission facilities to the ISO, unless other parties are authorized by the appropriate regulatory authority to provide metering data. The NTO shall collect and submit to the ISO billing quality metering data and any other information for its transmission facilities required by the ISO for billing purposes. The NTO shall provide to the ISO the telemetry and other operating data from generation and merchant transmission resources interconnected to its transmission facilities that the ISO requires for the operation of the NYS Power System. The NTO will establish and maintain a strict code of conduct to prevent such information from reaching any unauthorized person or entity.

2.06 Security Constrained Unit Commitment Adjustments

The NTO shall coordinate with its ITO(s) as applicable regarding any request for commitment of additional Generators. If, following coordination among the NTO and its ITO(s), an additional resource(s) needs to be committed to ensure local area reliability, the NTO, or the ITO(s) at the NTO's request, may request commitment of additional Generators (including specific output level(s)). The ISO will use Supplemental Resource Evaluation ("SRE"), pursuant to ISO Tariffs and ISO Procedures, to fulfill a request from the NTO or ITO(s), as appropriate, for additional units.

2.07 Design, Maintenance and Rating Capabilities

The NTO shall comply with the provisions of this Agreement, all Reliability Rules and all other applicable reliability rules, standards and criteria, ISO Procedures, the local reliability rules and planning criteria of its ITO(s), and Good Utility Practice with respect to the design, maintenance and rating the capabilities of NYS Transmission System facilities.

2.08 Maintenance Scheduling

The NTO shall schedule maintenance of its facilities designated as NTO Transmission Facilities Under ISO Operational Control and schedule any outages (other than forced transmission outages) of said transmission system facilities in accordance with outage schedules approved by the ISO. The NTO shall comply with maintenance schedules coordinated by the ISO, pursuant to this Agreement, for NTO Transmission Facilities Under ISO Operational Control. The NTO shall be responsible for providing notification of maintenance schedules to the ISO and ITO(s) for NTO Transmission Facilities Requiring ISO Notification, and for providing notification of maintenance schedules to its ITO(s) for Local Area Transmission Facilities.

2.09 NERC Registration

The NTO shall register or enter into agreement with a NERC registered entity for all required NERC functions applicable to the NTO, that may include, without limitation, those functions designated by NERC to be: “Transmission Owner” and “Transmission Planner” and “Transmission Operator.” Notwithstanding the foregoing, the ISO shall register for the “Transmission Operator” function for all NTO Transmission Facilities under ISO Operational Control identified in Appendix A-1 of this Agreement.

2.10 Investigations and Restoration

The NTO shall promptly conduct investigations of equipment malfunctions and failures and forced transmission outages in a manner consistent with applicable FERC, PSC, NRC, NERC, NPCC and NYSRC rules, principles, guidelines, standards and requirements, ISO Procedures and Good Utility Practice. The NTO shall supply the results of such investigations to the NYSRC, the ISO, its ITO(s), and the other affected Transmission Owners. Following a total or partial system interruption, restoration shall be coordinated between the ISO control center and local control centers. The local control centers shall have the authority, in coordination with the ISO, to restore the system and to re-establish service if doing so would minimize the period of service interruption. The NTO shall determine~~, or arrange for its ITO(s) to determine,~~ the level of resources to be applied to restore facilities to service following a failure, malfunction, or forced transmission outage.

2.11 Information and Support

The NTO shall obtain from the ISO, and the ISO shall provide to the NTO, the necessary information and support services to comply with their obligations under this Article.

2.12 Performance of Obligation by Third Parties

The NTO may arrange for one or more third parties to perform its responsibilities under this Agreement; *provided, however*, that the NTO shall require each such third party to agree in writing to comply with all applicable terms and conditions of this Agreement; *provided, further*, that in all cases the NTO shall be responsible for the acts and omissions of each such third party to the same extent as if such acts and omissions were made by the NTO or its employees, and such use of a third party shall not relieve the NTO of its responsibilities under this Agreement.

ARTICLE 3.0: RESPONSIBILITIES OF THE ISO

3.01 Operation and Coordination

The ISO shall direct the operation of, coordinate the maintenance scheduling of, and coordinate the planning of certain facilities of the NYS Power System, including coordination with the control center(s) maintained by or on behalf of the NTO, in accordance with the Reliability Rules and all other applicable reliability rules, standards and criteria, as follows:

a. Administering Control Area operations of the NYS Power System;

b. Performing balancing of Generation and Load while ensuring the safe, reliable and efficient operation of the NYS Power System;

c. Exercising ISO Operational Control over certain facilities of the NYS Power System under normal operating conditions and system Emergencies to maintain system reliability; and

d. Coordinating the NYS Power System equipment outages and maintenance and maintaining the safety and short term reliability of the NYS Power System.

3.02 Tariff Administration and Performance of Responsibilities Under ISO Related Agreements

The ISO shall (a) administer the ISO OATT, the ISO Services Tariff and the ISO Agreement in accordance with their provisions as they may be amended from time to time, and (b) shall comply with the provisions of this Agreement, the ISO/TO Agreement, the NYSRC Agreement and the ISO/NYSRC Agreement.

3.03 Granting of Authority

The ISO responsibilities set forth in Article 3 of this Agreement, are granted by the NTO to the ISO only so long as each of the conditions set forth below is met and continues to be met throughout the term of this Agreement:

a. The ISO fully implements all Reliability Rules and all other applicable reliability rules, standards and criteria including, without limitation, using all reasonable efforts to require all Market Participants to maintain applicable levels of Installed Capacity and Operating Capacity, consistent with the ISO OATT, the ISO Services Tariff, all Reliability Rules and all other applicable reliability rules, standards and criteria;

b. The ISO has a FERC-accepted transmission tariff(s) and rate schedules which provide(s) for full recovery of the transmission revenue requirement of the NTO to the extent allowed, accepted or approved by FERC;

c. The ISO does not act in violation of lawful PSC or FERC Orders~~has a FERC-accepted transmission tariff(s) and rate schedules which provide(s) for full recovery of the transmission revenue requirement of the NTO to the extent allowed, accepted or approved by FERC~~;

d. The ISO does not have a financial interest in any commercial transaction involving the use of the NYS Power System or any other electrical system except to the limited extent required for the ISO to be the single counterparty to market transactions in accordance with the credit requirements for organized wholesale electric markets set forth in Commission Order Nos. 741 and 741-A as codified in 18 C.F.R. § 35.47 (2011) or successor provisions;

e. The ISO distributes revenues from the collection of transmission charges to the NTO in a timely manner; and

f. The ISO enforces and complies with the creditworthiness and collection standards of the ISO Procedures, the ISO OATT and the ISO Services Tariff.

3.04 Collection and Billing

The ISO shall facilitate and/or perform the billing and collection of revenues related to services provided by the ISO pursuant to the terms of the ISO OATT and the ISO Services Tariff.

3.05 Proposed Material Modifications to the NYS Power System

Pursuant to the requirements of applicable provisions of the ISO OATT, ISO Related Agreements and ISO Procedures, the ISO shall evaluate the impact of any proposed material modification to the NYS Power System. Any proposed material modification to the NTO's facilities must satisfy the requirements of applicable provisions of the ISO OATT, ISO Related Agreements and ISO Procedures. In the event of a dispute regarding the impact of the proposed modification, the ISO or the NTO may refer the issue for resolution pursuant to procedures set forth in Article 11 of the ISO Services Tariff, as such procedures may be amended from time to time.

3.06 OASIS

The ISO shall maintain the OASIS for the New York Control Area.

3.07 NERC Registration

If and to the extent any of the NTO's facilities are NERC jurisdictional facilities, the ISO will register for certain NERC functions applicable to those NTO facilities. Such functions may include, without limitation, those functions designated by NERC to be "Reliability Coordinator" and "Balancing Authority" and "Planning Coordinator." The ISO shall register for the "Transmission Operator" function for all NTO Transmission Facilities under ISO Operational Control identified in Appendix A-1 of this Agreement.

3.08 NTO's Reserved Rights

Notwithstanding any other provision of this Agreement, the NTO shall retain all of the rights set forth in this Section; provided, however, that such rights shall be exercised in a manner consistent with the NTO's rights and obligations under the Federal Power Act and the Commission's rules and regulations thereunder. This Section is not intended to reduce or limit any other rights of the NTO as a signatory to this Agreement or any of the ISO Related Agreements or under an ISO Tariff.

a. The NTO shall have the right to make a filing with the Commission pursuant to Section 205 of the Federal Power Act to recover, in accordance with the requirements of Attachment Y to the ISO OATT and/or applicable rate schedule of the ISO OATT, all of its reasonably incurred costs, plus a reasonable return on investment related to the development, construction, operation and maintenance of its transmission facilities.

b. Nothing in this Agreement shall restrict any rights, to the extent such rights exist: (i) of the NTO that is a party to a merger, acquisition or other restructuring transaction to make filings under Section 205 of the Federal Power Act with respect to the reallocation or redistribution of revenues among Transmission Owners or the assignment of its rights or obligations, to the extent the Federal Power Act requires such filings; or (ii) of the NTO to terminate its participation in the ISO pursuant to Section 3.02 of the ISO Agreement or Article 6 of this Agreement, notwithstanding any effect its withdrawal from the ISO may have on the distribution of transmission revenues among other Transmission Owners.

c. The NTO retains all rights that it otherwise has incident to its ownership of its assets, including, without limitation, its transmission facilities including, without limitation, the right to build, acquire, sell, merge, dispose of, retire, use as security, or otherwise transfer or convey all or any part of its assets, including, without limitation, the right to amend or terminate the NTO's relationship with the ISO in connection with the creation of an alternative arrangement for the ownership and/or operation of its transmission facilities on an unbundled basis (e.g., a transmission company), subject to necessary regulatory approvals and to any approvals required under applicable provisions of this Agreement.

d. The obligation of the NTO to expand or modify its transmission facilities in accordance with the ISO OATT shall be subject to the NTO's right to recover, pursuant to appropriate financial arrangements contained in Commission-accepted tariffs or agreements, all reasonably incurred costs, plus a reasonable return on investment, associated with constructing and owning or financing such expansions or modifications to its facilities.

e. The responsibilities granted to the ISO under this Agreement shall not expand or diminish the responsibilities of the NTO to modify or expand its transmission system, nor confer upon the ISO the authority to direct the NTO to modify or expand its transmission system.

f. The NTO shall have the right to adopt and implement procedures it deems necessary to protect its electric facilities from physical damage or to prevent injury or damage to persons or property.

g. The NTO retains the right to take whatever actions it deems necessary to fulfill its obligations under local, state or federal law.

h. Nothing in this Agreement shall be construed as limiting in any way the rights of the NTO to make any filing with the PSC.

i. Notwithstanding anything to the contrary in this Agreement, no amendment to any provision of this Section may be adopted without the agreement of the NTO.

3.09 Retention of Non-Transferred Obligations

Any and all other rights and responsibilities of the NTO related to the ownership or operation of its transmission assets or to its rights to withdraw its assets from ISO control, that have not been specifically transferred to the ISO under this Agreement or otherwise addressed under this Agreement, will remain with the NTO.

ARTICLE 4.0: ASSIGNMENT

4.01 Assignments by the NTO or the ISO.

This Agreement may be assigned by either Party including, without limitation, to any entity(ies) in connection with a merger, consolidation, reorganization or change in the organizational structure of the assigning Party, provided that the surviving entity(ies) agree, in writing, to be bound by the terms of this Agreement.

ARTICLE 5.0: LIMITATION OF LIABILITY AND INDEMNIFICATION

5.01 Limitations of Liability

Except as otherwise provided under the ISO OATT, neither Party shall be liable (whether based on contract, indemnification, warranty, tort, strict liability or otherwise) to the other Party, any Market Participant, any third party or other party for any damages whatsoever, including without limitation, special, indirect, incidental, consequential, punitive, exemplary or direct damages resulting from any act or omission under this Agreement, except to the extent the Party is found liable for gross negligence or intentional misconduct, in which case the Party shall not be liable for any special, indirect, incidental, consequential, punitive or exemplary damages. Nothing in this Section will excuse an NTO from an obligation to pay for services provided to the NTO by the ISO or to pay any deficiency payments, penalties, or sanctions imposed by the ISO under the ISO OATT or the ISO Services Tariff.

5.02 Additional Limitations of Liability

Except as otherwise provided under the ISO OATT, neither the NTO nor the ISO shall be liable for any indirect, consequential, exemplary, special, incidental or punitive damages including, without limitation, lost revenues or profits, the cost of replacement power or the cost of capital, even if such damages are foreseeable or the damaged party has been advised of the possibility of such damages and regardless of whether any such damages are deemed to result from the failure or inadequacy of any exclusive or other remedy.

5.03 Indemnification

Each Party shall at all times indemnify, save harmless and defend the other Party, including their directors, officers, employees, trustees, and agents, or each of them, from and against all claims, demands, losses, liabilities, judgments, damages (including, without limitation, any consequential, incidental, direct, special, indirect, exemplary or punitive damages and economic costs), and related costs and expenses (including, without limitation, reasonable attorney and expert fees, and disbursements incurred by the Party in any actions or proceedings between the Party and a Market Participant, or any other third party) arising out of or related to the ISO's or the NTO's acts or omissions related in any way to the NTO's ownership or operation of its transmission facilities when such acts or omissions are either (1) pursuant to or consistent with ISO Procedures or direction; or (2) in any way related to the NTO's or the ISO's performance under the ISO OATT, the ISO Services Tariff, the ISO Agreement, the ISO/NYSRC Agreement, NYSRC Agreement, or this Agreement; *provided, however*, that the NTO shall not have any indemnification obligation under this Section 5.02 with respect to any loss to the extent the loss results from the gross negligence or intentional misconduct of the ISO; *provided, further*, that the ISO shall not have any indemnification obligation under this Section 5.02 with respect to any loss except to the extent the loss results from the gross negligence or intentional misconduct of the ISO.

5.04 Force Majeure

Each Party shall not be considered to be in default or breach under this Agreement, and shall be excused from performance or liability for damages to any other party, if and to the extent it shall be delayed in or prevented from performing or carrying out any of the provisions of this Agreement, except the obligation to pay any amount when due, arising out of or from any act, omission, or circumstance occasioned by or in consequence of any act of God, labor disturbance, failure of contractors or suppliers of materials, act of the public enemy, war, invasion, insurrection, riot, fire, storm, flood, ice, explosion, breakage or accident to machinery or equipment or by any other cause or causes beyond such Party's reasonable control, including any curtailment, order, regulation, or restriction imposed by governmental, military or lawfully established civilian authorities, or by the making of repairs necessitated by an emergency circumstance not limited to those listed above upon the property or equipment of the ISO or any party to the ISO Agreement. Nothing contained in this Article shall relieve any entity of the obligations to make payments when due hereunder or pursuant to a Service Agreement. Any party claiming a force majeure event shall use reasonable diligence to remove the condition that prevents performance, except the settlement of any labor disturbance shall be in the sole judgment of the affected party.

5.05 Claims by Employees and Insurance

Each Party shall be solely responsible for and shall bear all of the costs of claims by its own employees, contractors, or agents arising under and covered by, any workers' compensation law. Each Party shall furnish, at its sole expense, such insurance coverage and such evidence thereof, or evidence of self-insurance, as is reasonably necessary to meet its obligations under this Agreement.

5.06 Survival

The provisions of this Article, "Limitations of Liability and Indemnification" shall survive the termination or expiration of this Agreement or the ISO Tariffs.

ARTICLE 6.0: OTHER PROVISIONS

6.01 Term and Termination for Cause

This Agreement shall become effective upon the execution of this Agreement by the NTO and the ISO and on the later of: (i) the date on which FERC, the PSC and any other regulatory agency having jurisdiction accepts this agreement without condition or material modification and grants all approvals needed to place the NTO's facilities in service, including, without limitation, any approvals required under Section 70 of the Public Service Law and Section 203 of the FPA; or (ii) on such later date specified by FERC. Without waiving or limiting any of its other rights under this Article, if the NTO determines that any of the conditions set forth in Section 3.03 hereof is not being met or ceases to be in full force and effect the NTO may terminate this Agreement, withdraw from the ISO Agreement and the ISO Tariffs, and withdraw its assets from the ISO's control and administration on ninety (90) days prior written notice to the ISO and FERC, subject to the NTO obtaining all regulatory approvals for such termination and withdrawal, and having on file with FERC its own open access transmission tariff. Such notice shall identify the condition or conditions set forth in Section 3.03 that have not been met or no longer are in full force and effect; provided, however, that prior to the filing of such notice, the ISO shall be advised of the specific condition or conditions that are no longer in full force and effect, and the ISO shall have the opportunity to restore the effectiveness of the condition or conditions identified within a thirty (30) day period. If the effectiveness of the condition or conditions is not restored within thirty (30) days, the NTO may file a notice of termination with the ISO and FERC; provided, however, that if the ISO demonstrates that it has made a good faith effort but has been unable to restore the effectiveness of the condition or conditions within the thirty (30) day period, the ISO shall be provided an additional thirty (30) day period to restore the effectiveness of the condition or conditions and the NTO may not file the notice of termination until the expiration of the second thirty (30) day period. The NTO's termination of this Agreement under this Section shall be effective ninety (90) days after the filing of the notice of termination unless FERC finds that such termination of the NTO is contrary to the public interest, as that standard has been judicially construed under the Mobile-Sierra doctrine. However, the NTO may withdraw the notice or extend the termination date. Nothing in this section shall be construed as a voluntary undertaking by the NTO to remain a Party to this Agreement after the expiration of its notice of termination.

6.02 Termination by Election

The NTO may terminate this Agreement, withdraw from the ISO Agreement and the ISO Tariffs, and withdraw its assets from the ISO control and administration upon ninety (90) days written notice to the ISO Board and FERC, subject to the NTO obtaining all regulatory approvals for such termination and withdrawal, and having on file with FERC its own open access transmission tariff. Such termination and withdrawal shall be effective unless FERC finds that such termination and withdrawal is contrary to the public interest, as that standard has been judicially construed under the Mobile-Sierra doctrine. Any modification to this Article shall provide the NTO with the right to terminate this Agreement pursuant to the unmodified provisions of this Article, within ninety (90) days of the effective date of such modification, subject to the NTO obtaining all regulatory approvals for such termination, and having on file with FERC its own open access transmission tariff.

6.03 Obligations after Termination

a. Following termination of this Agreement, a Party shall remain liable for all obligations arising hereunder prior to the effective date of termination, including all obligations accrued prior to the effective date, imposed on the Party by this Agreement or the ISO Tariffs or other ISO Related Agreements.

b. Termination of this Agreement shall not relieve the NTO of any continuing obligation it may have under the ISO Tariffs and ISO Related Agreements, unless the NTO also withdraws from the ISO Tariffs or ISO Related Agreements.

c. Termination of this Agreement and withdrawal from the ISO Tariffs and ISO Related Agreements shall not relieve the NTO of its responsibility for the operation, maintenance, and modification of its transmission facilities in accordance with its own open access transmission tariff, all Reliability Rules and all other applicable reliability rules, standards and criteria, and all other requirements applicable to transmission facilities in the NYCA.

6.04 Winding Up

Any provision of this Agreement that expressly or by implication comes into or remains in force following the termination of this Agreement shall survive such termination. The surviving provisions shall include, but shall not be limited to: (i) those provisions necessary to permit the orderly conclusion, or continuation pursuant to another agreement, of transactions entered into prior to the termination of this Agreement, (ii) those provisions necessary to conduct final billing, collection, and accounting with respect to all matters arising hereunder, and (iii) the indemnification and limitation of liability provisions as applicable to periods prior to such termination. The ISO and the terminating NTO shall have an obligation to make a good faith effort to agree upon a mutually satisfactory termination plan. Such plan shall have among its objectives an orderly termination. The plan shall address, to the extent necessary, the allocation of any costs directly related to the termination by the NTO.

6.05 Confidentiality

A. Party Access. Each Party shall supply information to the other Party as required by this Agreement. Information shall be treated as Confidential Information under this Agreement if (i) it has been clearly marked or otherwise designated as “Confidential information” by the Party supplying the information, or (ii) it is information designated as Confidential Information by applicable provisions of the ISO Tariffs; *provided, however,* Confidential Information does not include information: (i) in the public domain or that has been previously publicly disclosed without violation of this Agreement, (ii) required by law to be publicly submitted or disclosed (with notice to the other Party), or (iii) necessary to be divulged in an action to enforce this Agreement.

Notwithstanding anything in this Section to the contrary, the NTO shall not have a right hereunder to receive or review any documents, data or other information of another Market Participant or the ISO, including documents, data or other information provided to the ISO, to the extent such documents, data or information have been designated as confidential pursuant to the procedures specified in the ISO Tariffs or to the extent that they have been designated as confidential by such other Market Participant; *provided, however,* that the NTO may receive and review any composite documents, data and other information that may be developed based on such confidential documents, data or information if the composite does not disclose any individual Market Participant’s confidential data or information.

B. Required Disclosure. The ISO shall treat any Confidential Information it receives from the NTO in accordance with applicable provisions of the ISO Tariffs. If the NTO receives Confidential Information from the ISO, it shall hold such information in confidence, employing at least the same standard of care to protect the Confidential Information obtained from the ISO as it employs to protect its own Confidential Information. Each Party shall not disclose the other Party’s Confidential Information to any third party or to the public without prior written authorization of the Party providing the information; *provided, however,* if the ISO is required by applicable law, or in the course of administrative or judicial proceedings, or subpoena, to disclose information that is otherwise required to be maintained in confidence pursuant to this Section, the ISO will do so in accordance with applicable provisions of the ISO Tariffs. And if the NTO is required by applicable law, or in the course of administrative or judicial proceedings, or subpoena, to disclose information that is otherwise required to be maintained in confidence pursuant to this Section, the NTO may make disclosure of such information; *provided, however*, that as soon as the NTO learns of the disclosure requirement and prior to making such disclosure, the NTO shall notify the ISO of the requirement and the terms thereof and the ISO may, at its sole discretion and cost, assert any challenge to or defense against the disclosure requirement and the NTO shall cooperate with the ISO to the maximum extent practicable to minimize the disclosure of the information consistent with applicable law. Each Party shall cooperate with the Other Party to obtain proprietary or confidential treatment of such information by the person to whom such information is disclosed prior to any such disclosure.

6.06 Governing Law; Jurisdiction

The interpretation and performance of this Agreement shall be in accordance with and shall be controlled by the laws of the State of New York as though this Agreement is made and performed entirely in New York. With respect to any claim or controversy arising from this Agreement or performance hereunder within the subject matter jurisdiction of the Federal or State courts of the State of New York, the Parties consent to the exclusive jurisdiction and venue of said courts.

6.07 Headings

The section headings herein are for convenience and reference only and in no way define or limit the scope of this Agreement or in any way affect its provisions. Whenever the terms hereto, hereunder, herein or hereof are used in this Agreement, they shall be construed as referring to this entire Agreement, rather than to any individual section, subsection or sentence.

6.08 Mutual Agreement

Nothing in this Agreement is intended to limit the Parties' ability to mutually agree upon taking a course of action different than that provided for herein; provided that doing so will not adversely affect any other Parties' rights under this Agreement.

6.09 Contract Supremacy

In the case of a conflict between the express terms of this Agreement and the terms of the ISO Agreement, the express terms of this Agreement shall prevail.

6.10 Additional Remedies

The Parties agree that remedies at law will be inadequate to protect their respective interests and that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed by the responsible Party in accordance with their specific terms or were otherwise breached. Accordingly, it is agreed that each Party shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or an ISO Tariff by the other Party, and specific performance to enforce specifically the terms and provisions thereof in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which each Party is entitled at law or in equity.

6.11 No Third Party Rights

Nothing in this Agreement, express or implied, is intended to confer on any person, other than the Parties hereto, any rights or remedies under or by reason of this Agreement.

6.12 Not Partners

Nothing contained in this Agreement shall be construed to make the Parties partners or joint venturers or to render either Party liable for the debts or obligations of the other Party.

6.13 Waiver

Any waiver at any time of the rights of either Party as to any default or failure to require strict adherence to any of the terms herein, on the part of the other Party to this Agreement or as to any other matters arising hereunder shall not be deemed a waiver as to any default or other matter subsequently occurring.

6.14 Modification

This Agreement is subject to change under Section 205 of the Federal Power Act, as that section may be amended or superseded, upon the mutual written agreement of the Parties. Absent mutual agreement of the Parties, it is the intent of this Section 6.14 that, to the maximum extent permitted by law, the terms and conditions set forth in Sections 2.01, 3.03, 3.08, 3.09, 4.01, 5.01, 5.02, 5.03, 5.04, 5.05, 5.06, 6.01, 6.02, 6.09 and 6.14 of this Agreement shall not be subject to change, regardless of whether such change is sought (a) by the Commission acting sua sponte on behalf of either Party or third party, (b) by a Party, (c) by a third party, or (d) in any other manner; subject only to an express finding by the Commission that such change is required under the public interest standard under the Mobile-Sierra doctrine. Any other provision of this Agreement may be changed pursuant to a filing with FERC under Section 206 of the Federal Power Act and a finding by the Commission that such change is just and reasonable.

6.15 Counterparts

This Agreement may be executed in counterparts, neither one of which needs to be executed by both Parties, and this Agreement shall be binding upon both Parties with the same force and effect as if both Parties had signed the same document, and each such signed counterpart shall constitute an original of this Agreement.

IN WITNESS WHEREOF, each of the Parties hereto has caused this Agreement to be executed in its corporate name by its proper officers as of the date first written above.

New York Independent System Operator, Inc.

By: ________________________

Title:_______________________

Date:_______________________

[Insert name of NTO]

By:________________________

Title:_______________________

Date:_______________________

APPENDIX A-1

LISTING OF NTO TRANSMISSION FACILITIES UNDER ISO OPERATIONAL CONTROL

APPENDIX A-2

LISTING OF NTO TRANSMISSION FACILITIES REQUIRING ISO NOTIFICATION

APPENDIX A-3

LISTING OF NTO LOCAL AREA TRANSMISSION SYSTEM FACILITIES