X. Cost Allocation

X.1 Costs of Approved Interregional Transmission Projects

The cost allocation methodology reflected in this section X.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 Protocol, evaluated under the Protocol and selected by ISO-NE, PJM and NYISO 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 NYISO 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 NYISO and PJM, the cost allocation of such projects shall be in accordance with the Joint Operating Agreement (“JOA”) among and between NYISO and PJM. With respect to Interregional Transmission Projects and other transmission projects involving NYISO and ISO-NE, the cost allocation for such projects shall be in accordance with the respective tariffs of NYISO and 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 (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, 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 IPSAC review process, the regions having displaced projects will review and determine, in consultation with their respective transmission owners, 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 Northeastern 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.

(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 \times 28.888/(33.039+28.888) = $37.319 Million

X.2 Other Cost Allocation Arrangements

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

(b) Nothing in the FERC-filed documents of ISO-NE, NYISO 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 NYISO 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 Northeastern 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 Northeastern Planning Protocol, as applicable.

X.3 Filing Rights

Nothing in this [Section/Schedule] X will convey, expand, limit or otherwise alter any rights of ISO-NE, NYISO, 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 Schedule.

X.4. Merchant Transmission and Individual Transmission Owner Projects

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

X.5 Consequences to Other Regions from Regional or Interregional Transmission Projects

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