Cost Allocation

RPPTF
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Cost Allocation - Current

Cost Allocation

Network Load

Reliability

500 kV and above – socialized
Below 500 kV – contribution to violations

Market Efficiency

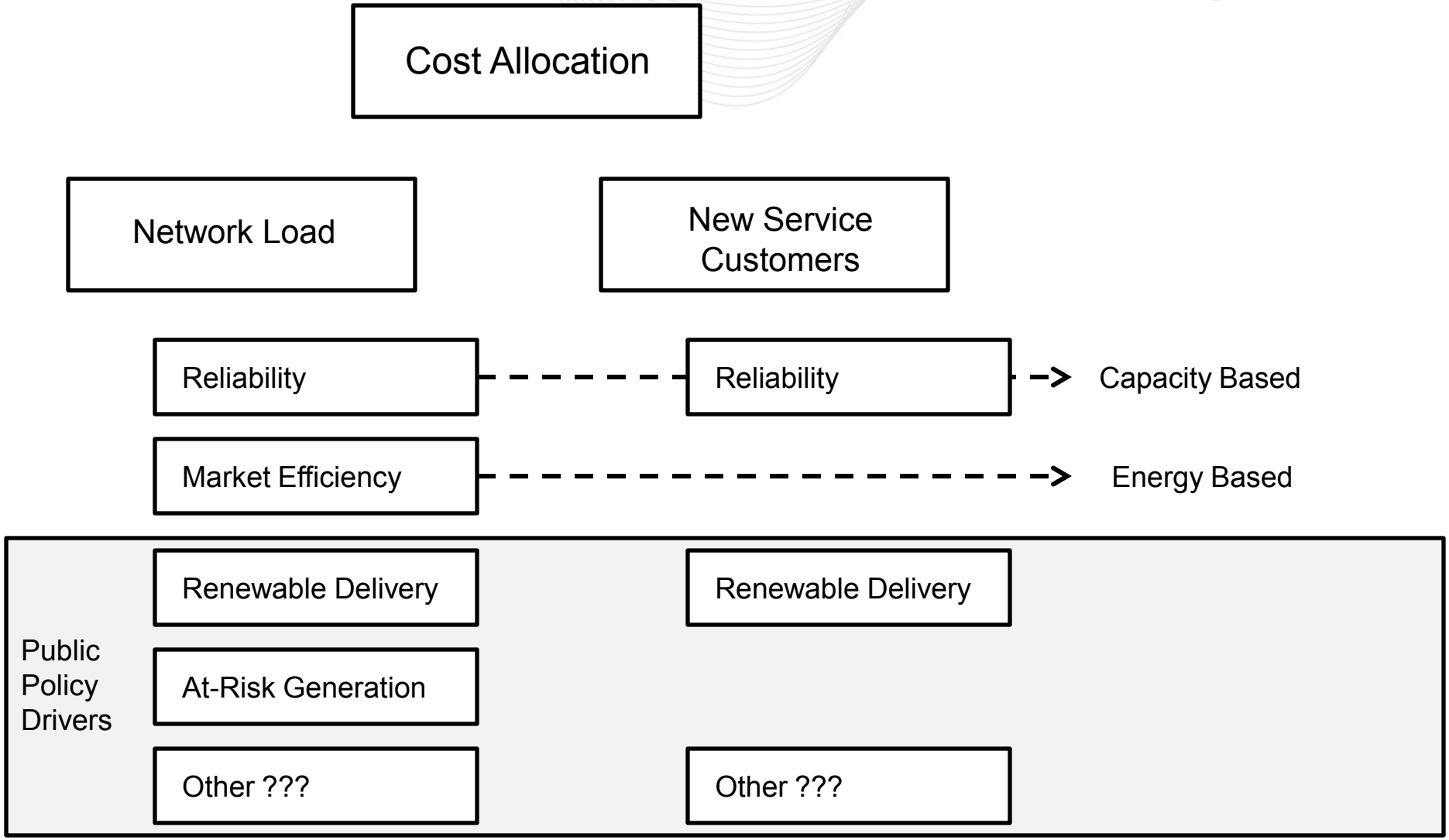
500 kV and above – socialized
Below 500 kV – proportional to net LMP benefit

New Service Customers

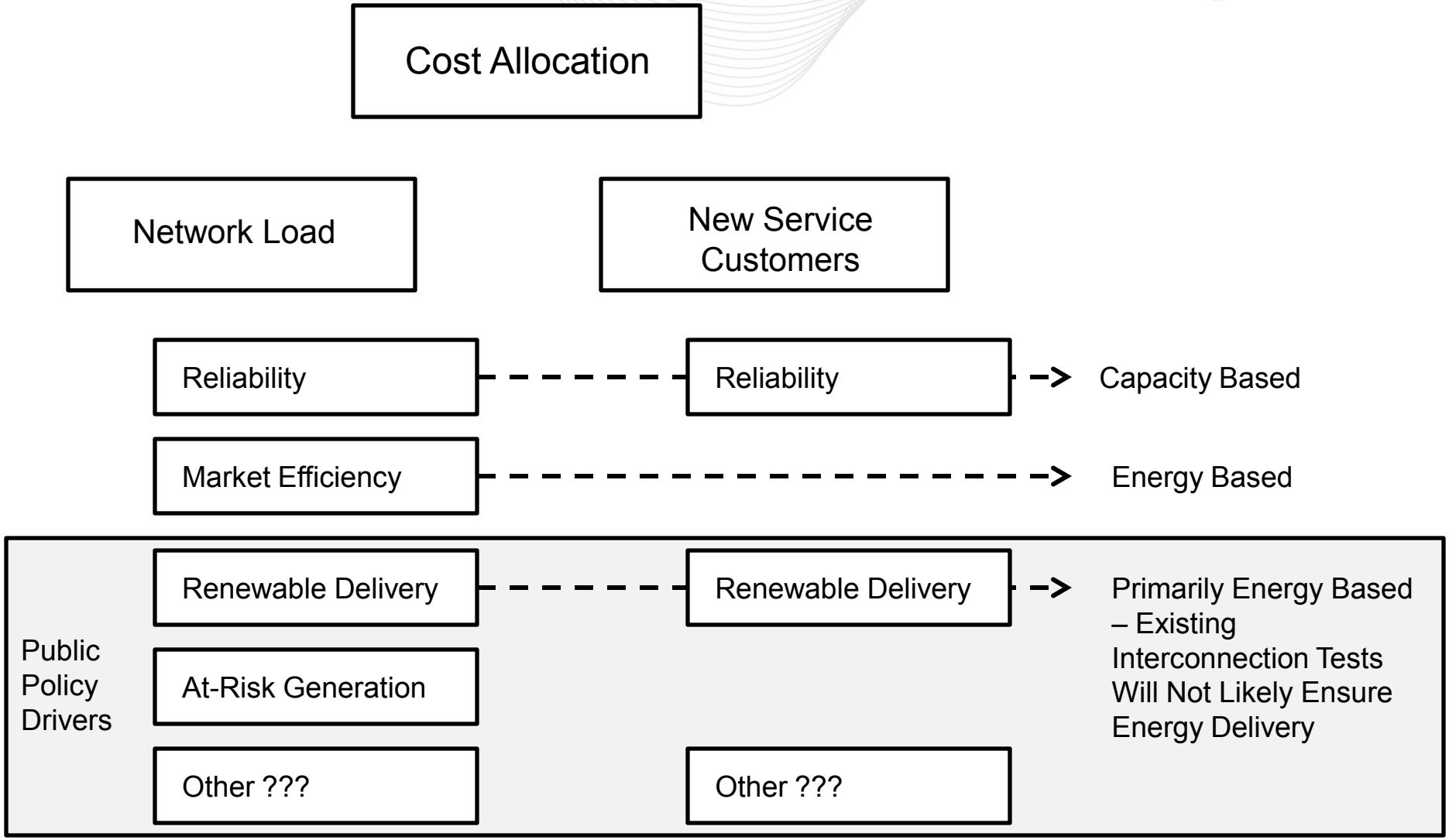
Reliability

Contribution to violations

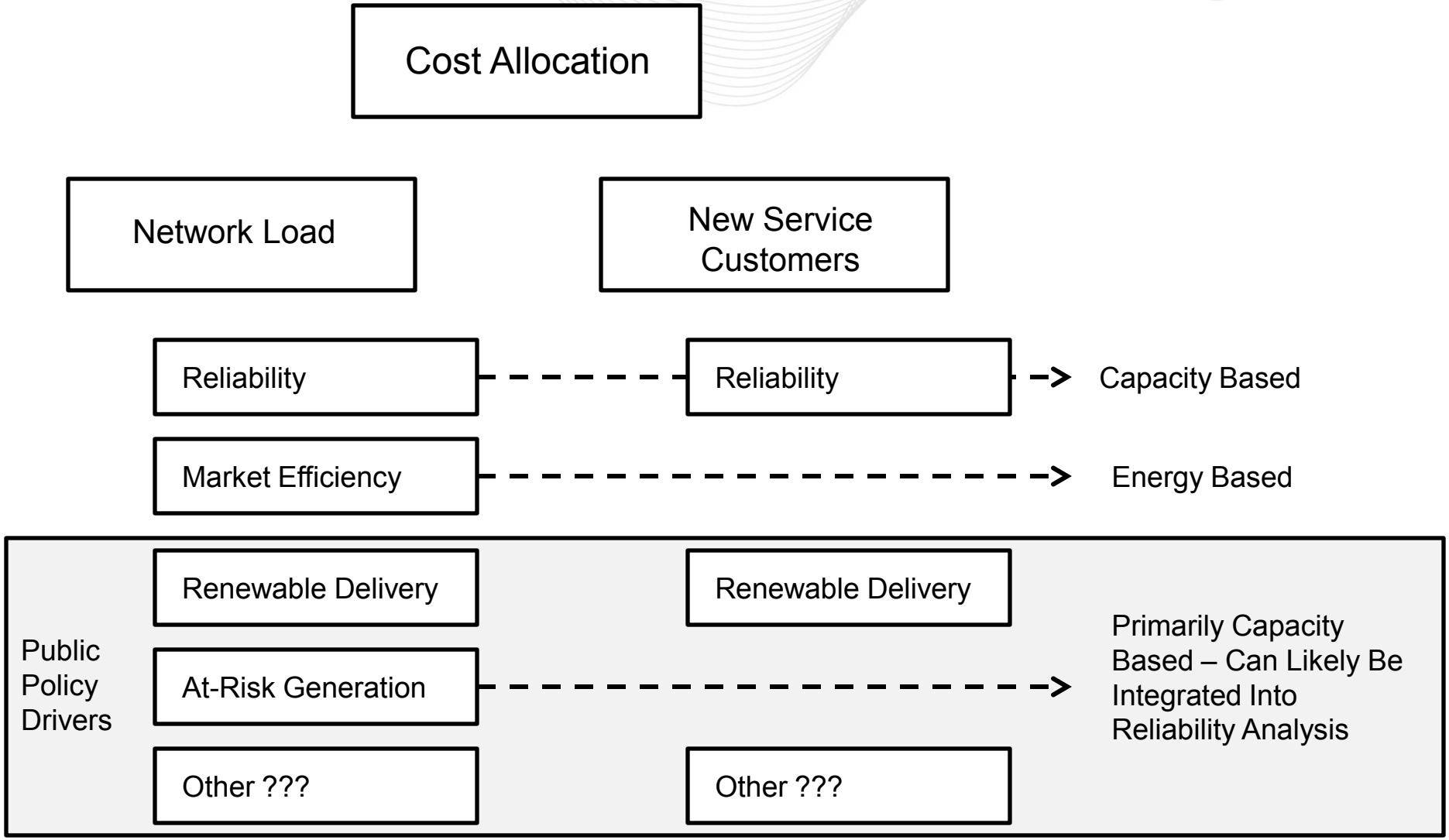
Cost Allocation – Moving Forward



Cost Allocation – Moving Forward



Cost Allocation – Moving Forward



Cost Allocation – Socialization

- Based on zonal peak load during the 12 month period ending October of the previous year
- Re-allocated every year
- Pros
  - Simple to perform
  - Allows for annual re-allocation
  - Relatively stable over time
  - Provides a means to recognize less quantifiable benefits

- Cons
  - Not directly related to quantifiable benefits
- Alternatives
  - Non-coincident peak load (1 hour) – current process
  - Contribution to coincident peak load
  - Multiple peak hours
  - Total energy over year
  - Socialize only a portion of cost based on relative value of quantifiable and non-quantifiable benefits
  - Other ???

Cost Allocation – Impact Based

- Based on zonal contribution to criteria violation driving need for upgrade
  - Impact based on system without upgrade in service
- Allocated once at time of initial approval
- Considers all violations driving need for upgrade
- Impact based on DFAX from all generation to zonal load
  - Zonal imports limited based on CETO analysis
  - DFAX threshold of 0.001
  - Impact based on base case – no adjustments allowed
  - Considers all zones with adverse impacts

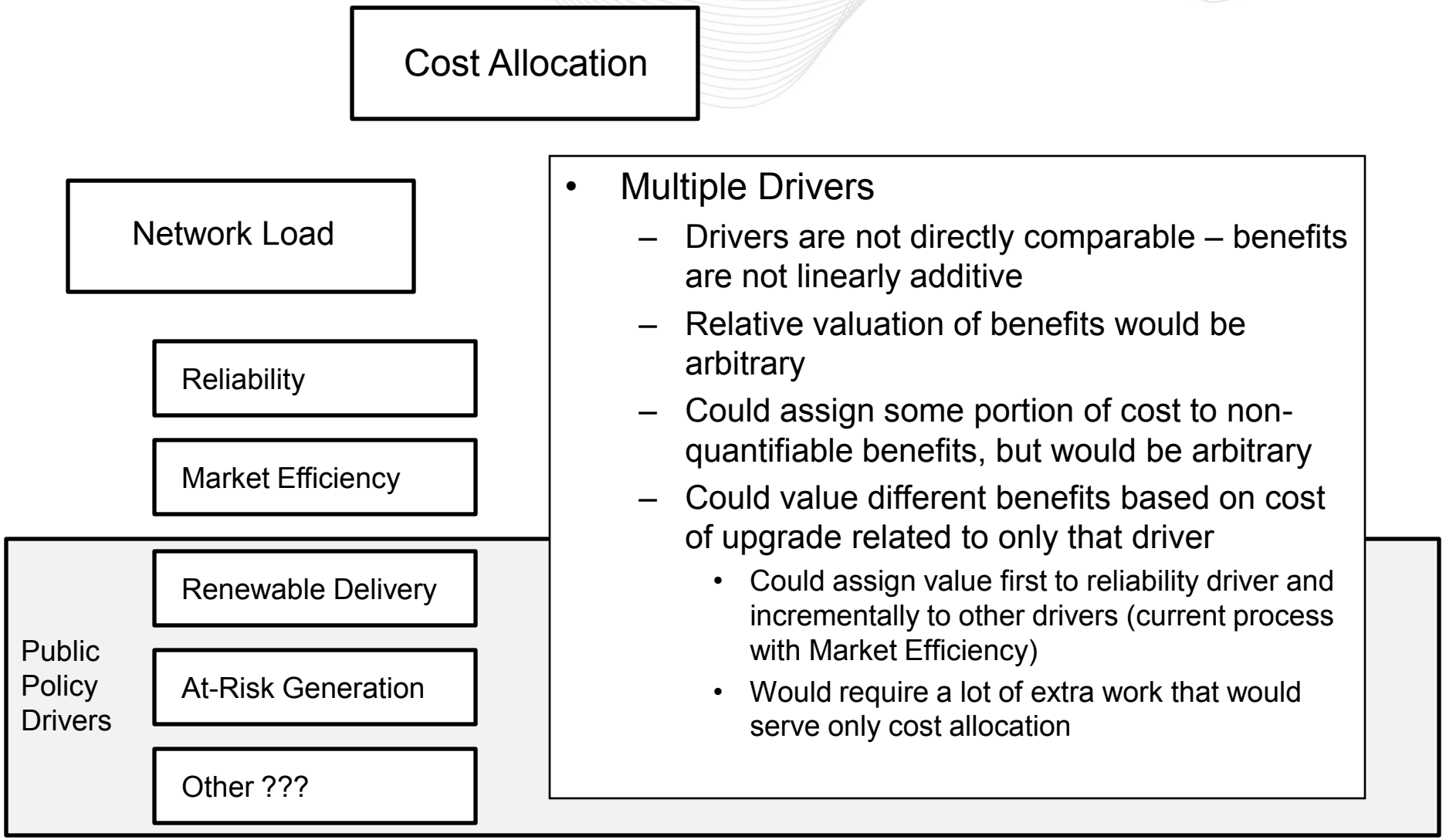
Cost Allocation – Impact Based

- Pros
  - Parallels basis for justification for upgrade
  - Can recognize multiple reliability drivers
- Cons
  - Complex to perform
  - Does not allow for annual re-allocation
    - No realistic way to unwind impact of multiple upgrades over time to reallocate
  - Individual procedural assumptions/practices can significantly impact results
    - Implication DFAX sourcing as compared to reasonable zonal import levels – fixed with application of CETO approach
    - Low DFAX threshold results in unrealistic allocations in some cases

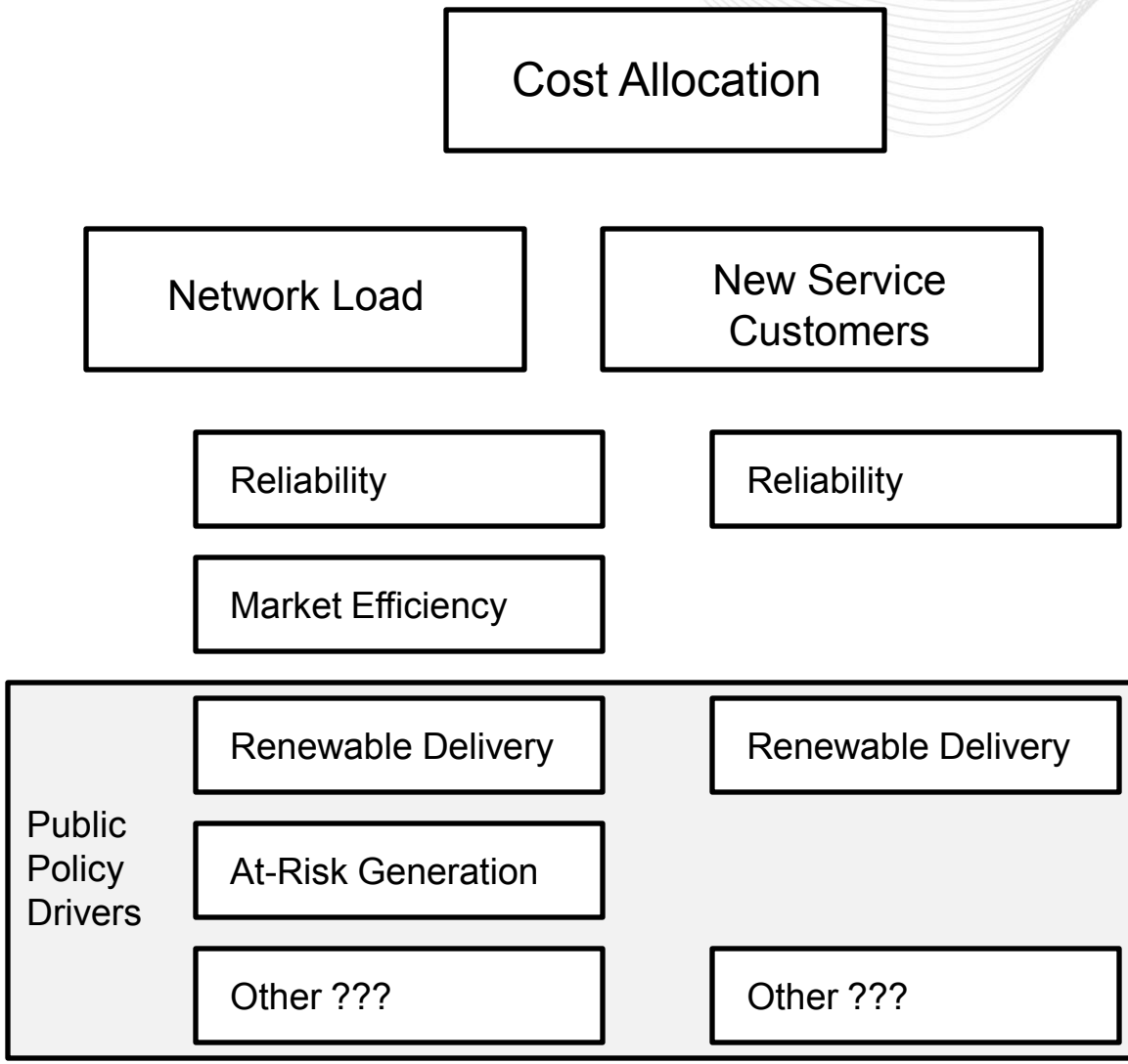
Cost Allocation – Impact Based

- Alternatives
  - Adjust various elements of DFAX calculations
    - e.g., DFAX threshold
  - Calculate use of upgraded facility
  - Allocate only a portion of cost based on quantifiable benefits, i.e., impact to criteria violations
  - Other ???

Cost Allocation – Impact of Multiple Drivers



Cost Allocation – Load and Generation Beneficiaries



- Multiple Beneficiaries
  - Allocations are rarely blended across load and generation – based on incremental need beyond existing baseline upgrades
  - Currently, no specific rights in interconnection process related to energy delivery
  - Currently, headroom created by baseline upgrades is free for the taking
  - Little incentive for generators to pay for upgrades to enhance energy delivery

Next Steps

- Discuss keeping DFAX approach for reliability versus ??
  - Discuss possible changes to DFAX methodology
- Discuss alternatives to socialization for higher voltage facilities
- Discuss changes to Market Efficiency allocation methodology
- Discuss possible allocation methods for renewable delivery
- Discuss possible allocation methods for at-risk generation
  - Roll into reliability analysis??
- Discuss possible changes to but-for allocation for new service customers