

Multi-Driver Project Question

RPPTF
October 8, 2012

Reliability Solution

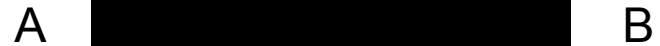


Cost - \$ X

Justification based on reliability criteria

Cost allocation for X based on reliability rules per transmission owner filing

Reliability & Market Efficiency Solution



Cost - \$ Y

Justification for Y – X incremental element based on market efficiency criteria – Benefit > 1.25(Y – X)

Cost allocation for Y based on reliability rules per transmission owner filing

- Reliability and market efficiency needs would be addressed within same RTEP cycle
- Reliability and market efficiency needs are reassessed in subsequent RTEP cycles
 - Reliability need could diminish or be eliminated requiring market efficiency to justify a greater portion of project – otherwise project would be removed and new solution identified
 - Market efficiency benefits could diminish to point where project would be removed and new solution identified

- Under new TO filing, cost allocation will be updated annually
 - Cost allocation is 100% based on reliability approach, i.e. 100% of cost goes into reliability bucket
- Portions of project associated with reliability and market efficiency drivers will not be re-determined
 - Cost allocation is not dependent on original cost associated with reliability stand-alone solution cost or market efficiency incremental cost or any re-evaluation, over time, of those individual drivers

Reliability Solution

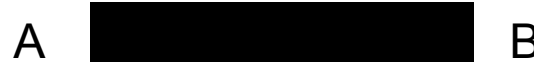


Cost - \$ X

Justification based on reliability criteria

Cost allocation for X based on reliability rules per transmission owner filing

Reliability & Market Efficiency Solution

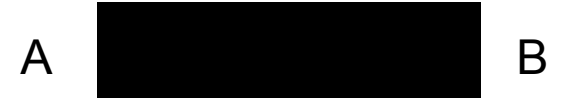


Cost - \$ Y

Justification for $Y - X$ incremental element based on market efficiency criteria – $\text{Benefit} > 1.25(Y - X)$

Cost allocation for Y based on reliability rules per transmission owner filing

Reliability, Market Efficiency & Public Policy Solution



Cost - \$ Z

Justification for $Z - Y$ incremental element based on State Agreement Approach

Cost allocation for Y based on reliability rules per transmission owner filing; cost allocation for $Z - Y$ specified by states agreeing to project increment

- Reliability, market efficiency and public policy needs would be addressed within same RTEP cycle
- Reliability drivers based on violations of reliability criteria or operational performance issues
- Market efficiency drivers based on existing Schedule 6 benefit/cost ratio test
 - Congestion events identified through production cost simulations
 - Transmission solutions evaluated in production cost simulations based on reduced system production cost and reduced zonal net energy payments
- State public policy drivers identified by states---impacts on specific projects discussed with TEAC.

- Commitment by states to incremental public policy component would have to be coordinated with approval of reliability and market efficiency upgrades
 - Absent commitment by states, would revert to solution to only reliability and market efficiency needs
 - Could result in reliability projects proceeding due to time requirements and public policy project commitments coming later
 - May also have timing issues with shorter-term, small scale, low risk reliability projects being replaced by long-term, large scope, riskier multi-driver projects

- Reliability and market efficiency needs are reassessed in subsequent RTEP cycles
- States may also reassess their commitment to public policy component of project
- If any component is eliminated, remaining components must justify a greater portion of project or project would be removed and new solution identified

- How are project costs assigned to reliability, market efficiency, and public policy buckets?
- Is assignment among buckets updated in future as system needs/uses change?
 - How?
 - Creates same problem with trying to re-allocate projects over time using existing Violation-based DFAX approach
- How would other drivers be integrated into a project?
 - Operational performance?
 - Aging infrastructure?
 - Interconnection projects?

- How are project costs assigned to reliability, market efficiency, and public policy buckets?
 - Hierarchical approach
 - Equal priority approach
 - Other?

- **Prioritization of drivers will impact cost allocation**
 - Hierarchical approach
 - Reliability always comes first
 - Pick some order for other drivers
 - Identify solutions to individual drivers and stack incremental costs associated with each additional driver
 - Incremental cost goes into bucket for that driver and allocated according to rules associated with that driver
 - Equal priority approach
 - Identify solutions to individual drivers and compare to total cost of most effective multi-driver solution package
 - Pro-rate costs of individual solutions down to cost of multi-driver solution package
 - Pro-rated costs go into bucket for each driver and allocated according to rules associated with that driver

- **Hierarchical approach**
 - Works well for current approach to reliability and market efficiency where multi-driver project is likely an enhancement to the reliability project
 - Market efficiency criteria may not be satisfied to identify a stand-alone upgrade but would be satisfied for an increment
- **Equal priority approach**
 - Would likely work better where a completely new project resolves multiple drivers, each resolved by smaller individual projects
- **May be appropriate to utilize both approaches, based on the circumstances**

- Costs for sub-elements in either approach would likely have to be based on estimates
 - Sub-elements would not be built since they are replaced by multi-driver project
- How are cost over-runs allocated?
 - Pro-rata across all drivers?
 - Possible problems based on nature of state commitment

- Facilitated discussion of issues