



# STATE OF CONNECTICUT

## CONNECTICUT SITING COUNCIL

Ten Franklin Square, New Britain, CT 06051

Phone: (860) 827-2935 Fax: (860) 827-2950

E-Mail: [siting.council@po.state.ct.us](mailto:siting.council@po.state.ct.us)

[www.ct.gov/csc](http://www.ct.gov/csc)

September 29, 2004

TO: Parties and Intervenors

FROM: S. Derek Phelps, Executive Director



RE: **DOCKET NO. 272** - The Connecticut Light and Power Company and The United Illuminating Company application for a Certificate of Environmental Compatibility and Public Need for the construction of a new 345-kV electric transmission line and associated facilities between the Scovill Rock Switching Station in Middletown and the Norwalk Substation in Norwalk, Connecticut.

---

### I. Introduction:

In a December 18, 2003 Order in Docket No. ER03-1141, the Federal Energy Regulatory Commission (FERC) approved a new rule and process for transmission project cost allocation that the New England Power Pool (NEPOOL) and the ISO New England (ISO NE) must use to determine who pays for the cost of transmission projects in New England. The purpose of this memo is to provide an overview of this new rule and process. As a general rule, projects that have been determined to provide reliability or economic benefits to the region will be given regional cost support. However, any costs for such projects that exceed the reasonable costs for such a project will not be supported regionally, but will be paid by local customers.

### II. Who determines who will pay for the costs of transmission projects?

Using rules approved by the FERC, the ISO NE (in consultation with NEPOOL) decides if a transmission project can be built and who should pay for the project. If anyone disagrees with the ISO NE's determination about cost allocation, they can file a complaint with the FERC.

### NEPOOL:

NEPOOL, which was organized in 1971, is a voluntary association comprised of more than two hundred and thirty New England electric industry participants. Participants include electric utilities rendering or receiving services, independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users and a merchant transmission provider. NEPOOL, through its FERC-approved Restated NEPOOL Agreement (RNA) and NEPOOL Tariff, develops and implements the rules

and procedures for the operation of the wholesale regional electricity market for New England. With respect to transmission projects, NEPOOL is responsible for planning and technical review of proposed modifications or upgrades to the New England regional transmission system and the associated cost allocation.

### **ISO NE:**

The ISO NE is a private, non-profit corporation that operates the New England bulk power system under guidelines contained in a contract with NEPOOL, the RNA and the NEPOOL Tariff. ISO NE is responsible to protect short-term reliability of the electricity grid of New England, to administer competitive and efficient wholesale markets, to administer the NEPOOL Tariff on behalf of NEPOOL participants, and to operate the system as provided in NEPOOL's market rules and according to reliability standards established by NEPOOL, the Northeast Power Coordinating Council (NPCC) and the North American Electric Reliability Council (NERC). With respect to transmission projects, under the NEPOOL Tariff, ISO NE is the primary decision-maker regarding whether: (1) a proposed modification or upgrade to the regional transmission system will have an adverse impact on the reliability and operation of the system; (2) a proposed modification or upgrade to the regional system is needed; and (3) there are excessive costs related to such modifications or upgrades that should be excluded from regional cost support.

### **FERC:**

FERC resolves any disputes. If any persons disagree with the ISO NE's determination regarding cost responsibility, they can file a complaint with the FERC seeking review of the ISO NE's determination.

## **III. What are the rules for who should pay for the cost of a transmission project?**

### **States Share Under Regional Cost Support:**

The December 12, 2003 FERC Order established a general rule, effective January 1, 2004, that certain classes of transmission upgrades should receive regional cost support. For these upgrades the cost will be rolled into the regional transmission rates paid by all New England transmission customers under the NEPOOL Tariff. For projects that qualify for regional cost sharing, the costs would be shared as follows based on each state's approximate share of network load: Connecticut 27%; Massachusetts 45%; Rhode Island 9%; Maine 7%; New Hampshire 7%; Vermont 5%.

### **Classes of Projects Eligible For Regional Cost Sharing:**

The two classes of projects eligible for regional support are : 1) Regional Benefit Upgrades (RBUs) and 2) those projects listed in Schedule 12B of the NEPOOL Tariff from the Regional Transmission Expansion Plan for 2002 (RTEP02 Upgrades) if the

project is placed in service on or before Dec 20, 2007. To qualify as an RBU a project must: 1) rate 115 kV or above; 2) meet the non-voltage criteria specified in Section 15.1 of the RNA; 3) be identified by the Transmission Expansion Advisory Committee (TEAC) in a Regional Transmission Expansion Planning (RTEP) as providing regional reliability or economic benefits. TEAC is a group of NEPOOL participants that, in consultation with state regulators, advises the ISO NE on regional system infrastructure needs.

Note: The Connecticut upgrades referred to as Phase I and II are RTEP02 projects listed in Schedule 12B. So, if Phase I and II are placed in service by December 20, 2007, these projects would qualify for regional support. If Phase I and II projects are not placed in service by December 20, 2007 deadline, these projects could also be eligible as RBUs which do not have to be in service by any deadline.

The December 18, 2003 Order also identified certain projects, i.e. Generator Interconnection Related Upgrades, Elective Transmission Upgrades, Merchant Transmission Facilities, and Local Benefit Upgrades that are not eligible for regional support.

#### **Excessive Costs Not Shared Regionally:**

Even if a project qualifies as an RTEP02 or RBU for regional cost support, some of all costs associated with the project may not be eligible for regional support if the ISO NE determines that certain of the costs are excessive and constitutes a localized cost, i.e. "gold plating." In making a determination whether localized costs exist, the ISO NE, under Schedule 12C of the NEPOOL Tariff, is required to consider the reasonableness of the proposed design and construction with respect to Good Utility Practice; current engineering design and construction practices in the area in which the upgrade is built; alternate feasible and practical upgrades; the relative costs, operation, timing of implementation, efficiency and reliability of the proposed upgrades. The costs that exceed reasonable requirements shall be deemed localized costs.

Note: Under a settlement with CL&P in the T10 case, if any portions of Phase I and II are not supported regionally, these costs would fall under the local network service tariff of CL&P. Under this tariff, the approximate shares are Connecticut 65%, Massachusetts 15% and New Hampshire 20%.

#### **IV. What is the review process for determining what transmission project costs will receive regional support?**

FERC's Order Regarding Rhode Island Underground Transmission Provides Clarification Regarding the ISO NE's Review of Cost Responsibility. Indeed, Schedule 12 of the NEPOOL Tariff, which was approved in the December 18, 2003 Order, establishes the ISO NE review process for cost responsibility.

FERC's June 2, 2004 FERC Order in Docket No. EL04-91-000, involving a proposed underground transmission project in Rhode Island, provides an instructive overview of the ISO NE and NEPOOL project review process. Simply put, the Order clarifies that siting approval must occur prior to ISO NE review in order that there be a final ruling approving a specific location and configuration. Subsequent to that action, the ISO NE will review the project for system impacts under RNA Section 18.4. After the project receives approval under the Section 18.4 process, the ISO NE and NEPOOL Reliability Committee will review the project under Schedule 12 for cost responsibility.

In this docket, the Rhode Island Attorney General (RIAG) filed a petition seeking a declaratory ruling from the FERC that the cost of undergrounding certain transmission lines should be supported by all customers in the New England region. The transmission line in question had not yet been approved by the Rhode Island siting authority. The ISO NE and NEPOOL objected to RIAG's filing on the basis that he was seeking to circumvent the established procedures for transmission planning, technical review, and cost responsibility, including the cost allocation provisions just recently approved by the Commission in the December 18, 2003 Order. The FERC dismissed the RIAG's petition.

#### **Siting Approval Must Come First:**

The FERC reasoned that final siting approval of a specific location and configuration was necessary in order to enable the ISO NE the ability to perform review of the project impact on the electric system under RNA Section 18.4 and of cost responsibility Schedule 12 of the NEPOOL Tariff.

#### **ISO NE Review Under Section 18.4 of the RNA:**

Under Section 18.4 of the RNA, proposed modifications to the transmission system are initially submitted to the ISO-NE for engineering review so the ISO-NE can decide what effect the modifications may have on the reliability or operational characteristics of the system. The reliability and operational requirement must be met before any significant changes to the regional transmission system, such as underground construction of transmission lines that are currently overhead. Under Section 18.4, the ISO NE must determine if "implementation of the plan will have a significant adverse effect upon the reliability or operating characteristics of its system or the one or more systems of other Participants." If the ISO NE determines that the project will have a significant adverse effect, the project sponsor must make modifications in order to avoid the adverse effect if it wishes to proceed with the project. If ISO-NE determines that there is no potential harm, the project may proceed.

#### **ISO NE Review Under Schedule 12 of the NEPOOL Tariff:**

The FERC went on to say that once a project was approved to proceed under section 18.4, the ISO-NE could then decide who should pay the cost of the upgrade. Schedule 12 of the NEPOOL OATT sets forth the procedures for transmission cost allocation. Under

those procedures, upgrades, modifications or additions to the transmission system are reviewed in a two-step process. First, projects are classified into one of the categories such as RBU, RTEP02 Upgrade, Generator Interconnection Related Upgrades, Elective Transmission Upgrades, Merchant Transmission Facilities, or Local Benefit Upgrades. Unless the project, after review in the RTEP process, qualifies as an RBU or RTEP02 Upgrade, it does not qualify for any regional cost support.

Second, if a project qualifies as an RBU or RTEP02 Upgrade eligible for regional cost support, the ISO NE must, under Schedule 12C, decide whether proposed upgrades include excessive costs. In this process, the ISO NE must consult with the NEPOOL Reliability Committee which acts in an advisory capacity on this issue. If excessive costs are identified, these costs are deemed to be localized costs, which are the responsibility of the entity or entities causing or subject to such localized costs. A party that disagrees with the ISO NE's determination regarding cost responsibility can file a complaint with the FERC.

**FERC Wants the ISO NE to Provide Siting Authorities with Guidance on Cost Responsibility:**

It is noteworthy that the FERC went on to say that it approved the cost allocation provisions in part because it believed that they would provide greater certainty to entities investing in transmission. FERC reasoned that siting boards are entitled to similar guidance to allow them to perform their function more effectively. While the FERC stopped short of ordering any tariff revisions to mandate the ISO to provide siting boards with guidance, the FERC encouraged the ISO-NE to provide state siting boards with as much guidance as possible regarding the likely cost allocation for proposed transmission projects.

---

I wish to acknowledge and thank Robert Luysterborghs of the adjudication unit of the Department of Public Utility Control for his assistance in preparing this memorandum. Documents that were referenced in the development of this memorandum included FERC TCA Order , December 18, 2003; FERC RIAG Order June 2, 2004; NEPOOL/ISO-NE Planning Procedure No. 4, June 11, 2004.