



Central Maine Power

Date: **October 5, 2006**
To: **NEPOOL Participants Committee Members and Alternates**
From: **Marc Guerrette, Central Maine Power Company (“CMP”)**
Subject: **Reliability Region Cost Allocation Proposal**

On October 13, 2006, the NPC will be asked to vote to approve certain amendments to Schedule 2 of Part II of the ISO Transmission, Markets and Services Tariff as presented in the main motion. Central Maine Power (“CMP”) will move to amend the main motion and request NPC support for an alternative to the cost allocation methodology currently reflected in the Schedule 2 amendments.

Voltage support (“VAR”) costs for uplift and capacity reflected in the Schedule 2 amendments presented in the main motion provide for the continued socialization to all New England Transmission Customer’s on the basis of Regional Network Load and Reserved Capacity for Through and Out transactions.

CMP is proposing to allocate VAR uplift costs (non-capacity cost) on a Reliability Region basis. Specifically, VAR uplift costs under the alternative cost allocation methodology would allocate uplift costs to the Regional Network Load and Reserved Capacity of Transmission Customers within the Reliability Region in which a resource was flagged by ISO as needed for VAR support.

In general allocating VAR uplift costs on Reliability Region basis will enhance otherwise distorted or muted price signals and therefore encourage investment in transmission and generation in needed areas. A Reliability Region approach is also consistent with cost allocation for other reliability-related out-of-merit payments under the Tariff and would be an improvement in a current flaw of the New England wholesale market.

Finally, the Reliability Regional method is consistent with FERC’s cost causation policy and is consistent with the conclusions and recommendations of ISO’s Independent Market Monitor issued in July 2006.

Please support the Reliability Region Cost Allocation amendments as presented in the motion to amend and provided in Attachment 1 to this memo.

Attachment:

An equal opportunity employer

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**CMP's October 5, 2006 Memo to the NEPOOL Participants Committee Regarding
Schedule 2 Amendments For The Reliability Region Cost Allocation Proposal**

ATTACHMENT 1

[Note: Sections III and IV below would be substituted for what is in Sections III and IV of Schedule 2 as distributed to the Participants Committee for the 10/13/06 meeting if the Participants Committee agrees to the Reliability Region Cost Allocation Proposal that might be proposed at the meeting. The highlighted language in Section III shows differences from what is in TC approved version. All of Section IV below is different from the TC approved version.]

“III. DETERMINING THE AMOUNT TO BE PAID FOR SERVICE UNDER THIS SCHEDULE

VAR Service under this Schedule 2 shall be provided through the ISO. Transmission Customers must purchase VAR Service through the ISO for the support of transmission voltages on the New England Transmission System. The charge for VAR Service shall be determined in accordance with the following formula:

$$CH = CC (HL_1 + RC_1) / (HL + RC) + (LOC + CEC + CEP) * (RRL_1 + RRC_1) / (RRL + RRC)$$

in which

CH = the amount to be paid by the Transmission Customer for the hour;

CC= the capacity costs for the hour shall be the VAR Revenue Requirement determined as set forth herein divided by the number of hours in the month;

LOC = the lost opportunity costs for the hour to be paid for a dynamic reactive power resource that provides VAR Service to meet reliability criteria within one or more Reliability Regions;

CEP = the portion of the amount paid for the hour for Energy produced by a dynamic reactive power resource for VAR

Service to meet reliability criteria within one or more

Reliability Regions;

CEC = the cost of energy used in the hour by a dynamic reactive power resource in order to provide VAR Service to meet reliability criteria within one or more Reliability Regions;

HL₁ = the Regional Network Load of the Transmission Customer for the hour;

HL= the aggregate of the Regional Network Loads of all Transmission Customer for the hour;

RC₁ = the Reserved Capacity for Through or Out Service of the Transmission Customers for the hour;

RC = the aggregate Reserved Capacity for Through or Out Service of all Transmission Customers for the hour;

RRL₁ = the Regional Network Load of the Transmission Customer within its Reliability Region for the hour;

RRL = the aggregate of Regional Network Load of all Transmission Customers for the hour within the affected Reliability Region(s);

RRC₁ = the Reserved Capacity for Through or Out Service of the Transmission Customer within the affected Reliability Region(s) within the hour; and

RRC = the aggregate Reserved Capacity for Through or Out Service

of all Transmission Customers for the hour within the affected Reliability Region(s).”

“IV. ALLOCATION OF VAR SERVICE COSTS

“The costs related to the CC component of the VAR Service charge shall be paid by each Transmission Customer that receives either Regional Network Service or Through or Out Service. The lost opportunity cost (“LOC”), cost of energy consumed (“CEC”) and cost of energy produced (“CEP”) components of the charge for VAR Service shall be paid by each Transmission Customer that has either Regional Network Service Load within or load receiving Through or Out Service associated with the affected Reliability Region(s) where reliability criteria must be met.”

Motion to Amend re: “Reliability Region Cost Allocation Proposal”

Resolved, that the Participants Committee Supports modifying the Schedule 2 Amendments, as presented in the main motion, by replacing Sections III and IV of the Schedule 2 Amendments with the alternative versions of Sections III and IV as provided to the Participants Committee for its October 13, 2006 meeting in a document entitled: “Alternative Sections for Schedule 2 Amendments”, together with any changes to those alternative versions agreed to at the meeting.