



Stephen J. Rourke  
Vice President, System Planning

October 23, 2008

Mr. Dean LaForest  
Manager of System Strategic Planning  
Vermont Electric Power Company, Inc.  
366 Pinnacle Ridge Road  
Rutland, VT 05701

**Re: TCA Applications VELCO-03-155-T01 Rev. 1, VELCO-03-155-T02 Rev. 1, VELCO-03-155-T03 Rev. 1, and VELCO-03-155-T04 Rev. 1; ISO New England Written Finding and Determination**

Dear Mr. LaForest:

This letter is being sent in accordance with Section 2 of Schedule 12C of Part II of the ISO New England Inc. ("ISO") Transmission, Markets and Services Tariff (the "ISO Tariff") and ISO Planning Procedure 4.<sup>1</sup>

## **I. Background**

On April 14, 2008, Vermont Electric Power Company, Inc. ("VELCO") filed four revised Transmission Cost Allocation ("TCA") applications pursuant to Schedule 12C of the ISO Tariff for the Northwest Reliability Project<sup>2</sup> (the "Project"). In total, the TCA applications requested an increase of \$106,700,000 in Pool Transmission Facility ("PTF") costs associated with the construction of 35.5 miles of new 345 kV transmission lines between the West Rutland and New Haven substations; 26 miles of new 115 kV transmission lines between the New Haven and Queen City substations; 115 kV transmission line reconductoring between the Granite and Barre substations; and rebuilding/additions at thirteen substations.<sup>3</sup> This additional review under Schedule 12C was conducted because actual project costs were exceeded by more than 10% of the original estimated costs previously approved by the ISO as Pool Supported PTF costs.

These revised TCA applications were reviewed with the New England stakeholders at various forums before a decision was rendered by the ISO. On March 18, 2008 and also on April 15, 2008, the Reliability Committee (RC) reviewed the TCA application. A meeting with New England stakeholders

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<sup>1</sup> Capitalized terms not defined in this letter have the meanings ascribed thereto in the ISO Open Access Transmission Tariff (the "ISO OATT"), which is Section II of the ISO Tariff.

<sup>2</sup> The original request for Pool Supported PTF costs for the Northwest Reliability Project encompassed four 15.5 applications: VELCO-155-T01, VELCO-155-T02, VELCO-155-T03 and VELCO-155-T04. These applications were originally submitted and approved by the NEPOOL Participants Committee on January 7, 2003 which was prior to the effective date of the current language of Schedule 12C.

<sup>3</sup> The affected substations include: Sandbar, Blissville, Hartford, Williston, Essex, Granite, West Rutland, New Haven, Queen City, Vergennes, Shelburne, Charlotte, and North Ferrisburg.

was held on May 30, 2008. A final presentation was made to the RC on June 19, 2008, where a favorable vote was made to recommend that the ISO approve the \$106,700,000 requested as Pool-Supported PTF costs. As explained further below, the ISO has determined that there are no Localized Costs associated with these amended TCA applications and therefore the ISO approves the revised TCA Application to include the additional \$106,700,000 as Pool-Supported PTF Costs.

## II. Discussion

Section 2 of Schedule 12C of the ISO OATT provides that: “[i]f the costs associated with a Transmission Upgrade exceed the estimated Pool-Supported PTF costs determined in the original Localized Costs review by ten percent . . . then the applicant for Pool-Supported PTF costs shall be required to submit its Transmission Upgrade again to a review by the ISO to determine if any of the incremental costs . . . are Localized Costs.”

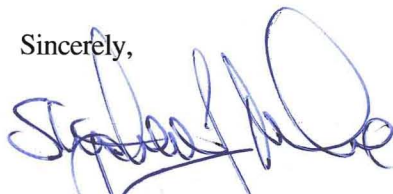
The ISO examined in detail the information supplied by VELCO and the reasons for the increase in Project costs. The increase appears to be primarily due to an increase in the costs for labor, materials, equipment, engineering and the lack of AFUDC in the original cost estimates. The increase in costs appear driven by: (a) an increase of approximately \$68,200,000 for materials, labor and equipment associated with construction, (b) an increase of \$68,200,000 for permitting, engineering and design, (c) an increase of \$9,400,000 for right-of-way costs, and (d) an increase of \$14,100,000 for AFUDC.

To better understand the reasons for the additional Project costs, the ISO sent two data request letters to VELCO. The first request was sent on May 16, 2008. In that request, the ISO sought information and cost breakdowns associated with equipment choices for the Blissville, Hartford, Granite and Vergennes substations, as well as AFUDC costs and scope changes, specifically at the Granite substation. VELCO responded on July 11, 2008 by providing cost breakdown and further explanation on the equipment choices that were made and showed that the relocation of the Granite substation actually provided a savings of approximately \$800,000. A second ISO data request was sent on July 28, 2008, which focused on concerns that were raised at the May 30, 2008 stakeholder meeting. VELCO responded to this request on August 4, 2008. Upon review of the TCA Applications, stakeholder presentations and supporting information, the ISO has determined that there are no Localized Costs associated with these amended TCA applications.

## III. CONCLUSION

In summary, the ISO finds \$106,700,000 as Pool-Supported PTF Costs. The reasons identified for the increase in the Project’s costs are consistent with the criteria in Schedule 12 of the ISO-NE OATT for receiving regional support and inclusion in Pool-Supported PTF rates.

Sincerely,



Stephen J. Rourke  
Vice President, System Planning

cc: TCApps  
Reliability Committee