



Stephen J. Rourke
Vice President, System Planning

May 18, 2011

Mr. Richard C. Peters
Associate Vice President Transmission Business
The United Illuminating Company
157 Church Street
New Haven, CT 06506-0901

Re: TCA Application NU-08-TCA-01/UI-08-TCA-01: Response to Dispute
Notification from The United Illuminating Company Regarding the Written
Findings and Determination of ISO New England

Dear Mr. Peters:

In accordance with Section 3 of Schedule 12C of Part II of the ISO New England Inc. ("ISO") Transmission, Markets and Services Tariff,¹ the ISO provides this response to the March 4, 2011 Dispute Notification from The United Illuminating Company ("UI") regarding the January 5, 2011 determination letter for the above referenced Transmission Cost Allocation ("TCA") application.

I. BACKGROUND

UI and The Connecticut Light and Power Company ("CL&P") (together the "Applicants") submitted to the ISO on April 11, 2008, and latter revised on March 23, 2010, a TCA application regarding the costs associated with the construction of approximately 69 linear miles of new 345 kV transmission line construction between the Scovill Rock Switching Station in Middletown, Connecticut, and the Norwalk Substation in Norwalk, Connecticut, plus the reconfiguration of sections of existing 115 kV transmission lines (collectively the "M-N Project" or the "Project"). On January 5, 2011, the ISO issued a determination letter ("Determination Letter") finding that \$1,205,839,821 of the \$1,274,571,160 requested by the Applicants in their revised application are properly categorized as Pool-Supported Pool Transmission Facilities ("Pool Supported PTF") under Schedule 12C of the ISO OATT.

¹ The ISO Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 ("ISO Tariff"). Section II of the ISO Tariff is the ISO's Open Access Transmission Tariff ("ISO OATT").

UI's Dispute Notification takes issue with two aspects of the Determination Letter. Specifically, these are that the ISO's determination that the costs incurred for the following two elements of the Project should not be categorized as Pool-Supported PTF Costs: (i) \$16.1 million for facilities associated with the reconfiguration of the Bridgeport Energy interconnection ("BE Interconnection") and (ii) the costs of certain spare equipment UI procured in connection with the Project as Localized Costs.

Regarding the BE Interconnection, the Dispute Notification contends that the ISO exceeded its authority under Schedules 12 and 12C in finding that such facilities do not constitute Pool Transmission Facilities ("PTF") and therefore do not meet the Tariff requirements for regional cost allocation. According to the Dispute Notification, "[t]he *only* purpose of Schedule 12C is 'to describe procedures that the ISO will use *in determining Localized Costs* for RBUs and RTEP02 Upgrades.'² The Dispute Notification also challenges the ISO's finding that the BE Interconnection is not PTF, arguing that the BE Interconnection "was proposed and approved as a Project Needed for Reliability."³ Finally, during a meeting held between UI and the ISO on April 11, 2011, UI stated the position that the M-N Project should not be examined pursuant to the criteria for a Regional Benefit Upgrade, but rather as an RTEP02 project.

II. DISCUSSION

A. The ISO Has the Authority to Find That Modifications Included in a TCA Application Do Not Constitute PTF

The Dispute Notification argues that the ISO does not have the authority to examine and determine whether certain facilities associated with a given transmission project and included in a TCA application (specifically, the BE Interconnection and the spare parts) do, or do not, constitute PTF.⁴ This argument is incorrect.

The ISO clearly has the authority and obligation, under Schedule 12C and other provisions of the Tariff, to address any threshold questions as to whether all of the different facilities that are included in a TCA application even qualify for pool-supported consideration based on whether the facilities constitute a Reliability Benefit Upgrade, which depends in part on whether the facilities constitute PTF. To fail to review such threshold qualification and allow non-PTF facilities regional rate treatment would constitute a violation of the clearly stated requirements of the Tariff.

² Dispute Notification at 4.

³ *Id.* at 5.

⁴ Dispute Notification at 2-4.

As Section II.49 of the ISO OATT explains, PTF “are the transmission facilities owned by PTOs, over which the ISO shall exercise Operating Authority in accordance with the terms set forth in the TOA, rated 69 kV or above required to allow energy from significant power sources to move freely on the New England Transmission System.”⁵ The PTF definition in Section II.49 of the ISO OATT expressly excludes certain types of facilities. Schedule 12 of the ISO OATT, in turn, describes the cost allocation treatment of upgrades to the New England Transmission System. It lists the different categories of projects that can obtain cost recovery on a regional basis as Pool-Supported PTF. Project components that otherwise meet the definition of either a Regional Benefit Upgrade or an RTEP02 project are then reviewed under Schedule 12C for “Localized Costs,” *i.e.*, those costs that exceed the those requirements that the ISO deems reasonable and consistent with Good Utility Practice and the current engineering design and construction practices in the area in which the Transmission Upgrade is built.⁶

The fact that Schedule 12C describes the Localized Cost methodology the ISO must follow in its review of the components included in a TCA for a Reliability Benefit Project does not mean that Schedule 12C *prohibits* the ISO from determining whether particular facilities included in a TCA application fail to constitute PTF, or that the ISO must ignore its duty to administer the governing cost allocation provisions included in Schedule 12. The ISO OATT is clear that the ISO has an initial and on-going role in determining whether facilities initially meet, and whether they continue to meet, the criteria for PTF facilities. Notably, Section II.49 of the ISO OATT clearly provides the ISO the authority to determine whether a particular facility constitutes PTF, as it requires “[t]he ISO [to] review at least annually the status of transmission lines and related facilities and determine whether such facilities constitute PTF and shall prepare and keep current a schedule or catalogue of PTF facilities.” Similarly, Schedule 12 of the ISO OATT provides that “[u]pgrades, modifications or additions to the New England Transmission System *shall be categorized by the ISO*, with advisory input from the Reliability Committee and the Planning Advisory Committee, as appropriate.”⁷ Thus, the ISO OATT explicitly provides the ISO the authority to determine whether particular facilities constitute PTF and whether the facilities qualify for regional cost allocation.

The provisions in the ISO OATT governing PTF cost allocation – including Schedule 12C – also provide the ISO the authority to determine whether facilities included in a TCA application fail to constitute PTF. Section II.50 of the ISO OATT provides that “[r]esponsibility for the costs of new PTF or any modification or other upgrade of PTF shall be determined, to the extent applicable, in accordance with

⁵ ISO OATT § II.49.

⁶ [Fn. To section and statement of other related factors examined as stated in the Tariff]

⁷ ISO OATT, Schedule 12, Section A (emphasis added).

Parts II.B and II.C and Schedules 11 and 12 to this OATT”⁸ Schedule 12 allows pool-supported cost recovery essentially for only three types of facilities: (i) NEMA Upgrades (for which status the M-N Project does not qualify), RTEP02 facilities (for which the M-N Project does not qualify based on an in-service date after December 20, 2007)⁹ and (iii) Regional Benefit Upgrades.¹⁰ By definition, Non-PTF can not qualify as Regional Benefit Upgrades, as a Regional Benefit Upgrade must exceed the minimum voltage criteria for PTF and meet all PTF non-voltage criteria:

Regional Benefit Upgrade(s) (RBU) means a Transmission Upgrade that: (i) is rated 115kV or above; (ii) *meets all of the non-voltage criteria for PTF classification specified in the OATT*; and (iii) is included in the Regional System Plan as either a Reliability Transmission Upgrade or a Market Efficiency Transmission Upgrade identified as needed pursuant to Attachment K of the OATT.¹¹

Furthermore, by definition, a Regional Benefit Upgrade must first constitute a Transmission Upgrade. Like the Regional Benefit Upgrade definition, a facility must be PTF in order to qualify as a Transmission Upgrade:

Transmission Upgrade(s) means an upgrade, modification or addition *to the PTF* that becomes subject to the terms and conditions of the OATT governing rates and service on the PTF on or after January 1, 2004. This categorization and cost allocation of Transmission Upgrades shall be as provided for in Schedule 12 of the OATT.¹²

Schedule 12 also provides that the cost for all Regional Benefit Upgrades “that meet the definition of PTF under this OATT, shall be included in the Pool-Supported

⁸ ISO OATT § II.50.

⁹ The M-N Project does not meet the timing requirement for pool-supported costs of an RTEP02 project, but that determination does not affect whether project elements must be PTF in order to qualify for regional rate treatment as Pool-Supported PTF. As Schedule 12.B.4 of the OATT states: “The costs for all RTEP02 Upgrades placed in service on or before December 20, 2007, shall be included in the Pool-Supported PTF Costs recoverable under this OATT *for so long as such Transmission Upgrades continue to meet the definition of PTF under this OATT* and allocated to Transmission Customers taking service under this OATT” (emphasis added).

¹⁰ ISO OATT, Schedule 12. Regional Benefit Upgrades include Market Efficiency Transmission Upgrades and Transmission upgrades.

¹¹ ISO Tariff § I.2.2 (emphasis added).

¹² ISO Tariff § I.2.2 (emphasis added).

PTF costs recoverable under this OATT *for so long as such Transmission Upgrades and such existing PTF continue to meet the definition of PTF under this OATT* and allocated to Transmission Customers taking service under this OATT.”¹³ In other words, even where a facility initially meets the criteria for PTF, if and when a facility is found not to be PTF, it may not continue to receive Pool-Supported PTF treatment.

The premise that once a Project is included in the Regional System Plan as an RBU, all elements of the project will be considered to be PTF is incorrect and finds no support in the language of the Tariff set out above that requires project elements to continue to meet PTF criteria. Projects will generally have components that are non-PTF, PTF that will meet the qualifications to be fully pool-supported under Schedule 12C, and PTF that will have elements of Localized Costs. Many entities submitting TCA applications identify elements associated with the project that do not meet the PTF criteria and those are then excluded from the TCA application. In the case of the M-N TCA application, the Applicants identified and excluded \$25.5 million of project costs up-front. Consistent with the Tariff criteria reviewed above for regional cost recovery, where the ISO identifies additional elements that are included in a TCA application for review but that do not qualify for regional cost recovery, the ISO will identify and exclude those costs from the approved Pool-Supported PTF amount.

As reviewed in this section, the ISO has the authority and obligation to ensure that project elements seeking regional cost recovery meet the threshold criteria for such recovery as clearly stated in the Tariff. As noted above, not only does the ISO have the authority to identify non-PTF elements that are included in TCA applications, but the ISO would be acting *inconsistently* with the filed rate – *i.e.*, the ISO Tariff – if it did not identify and exclude costs in the Project it knew to not constitute PTF. For this reason, the ISO has excluded those additional non-PTF facilities that it identified during the review of the TCA application for the M-N project.

B. The BE Interconnection Constitutes Non-PTF

It is clear that, in accordance with the ISO OATT, the BE Interconnection does not constitute PTF, and therefore cannot be pool supported. The ISO Tariff definition of PTF explicitly excludes from PTF “lines and associated facilities that contribute little or no parallel capability to the PTF.”¹⁴ The PTF definition also explicitly excludes “generator leads, which are defined as radial transmission from a generator bus to the nearest point on the PTF.”¹⁵

¹³ ISO OATT, Schedule 12, Section B.5.

¹⁴ ISO OATT § II.49.

¹⁵ *Id.*

These PTF exclusions describe the BE Interconnection on multiple points. The new 1934 line is a single, radial generation feed, and the line provides no parallel path capable of enhancing the flow of power across the New England Transmission System. Although the new Singer Substation satisfies these requirements for PTF, along with the new 345 kV line between Singer Substation and the Pequonnock Substation, the new 1934 line does not. The fact that the BE Interconnection was built in tandem with PTF facilities does not make them PTF. The BE Interconnection was therefore correctly excluded as part of the ISO's TCA review for the M-N Project.

C. The ISO's Denial of Pool-Supported Cost Treatment for the BE Interconnection Was Neither Untimely Nor Unfair

The Dispute Notification also argues that, even if the ISO is authorized to determine portions of a TCA application are not PTF, the ISO made its determination in this case in an inappropriate and untimely manner.¹⁶ Specifically, the Dispute Notification states that any such determination should have been made when the ISO categorizes a project as a Regional Benefit Upgrade.¹⁷ As discussed below, the ISO's determination was neither untimely nor unfair.

Regarding the timing, the ISO did not violate any timing requirements in the ISO Tariff, and the Dispute Notification fails to identify any. In fact, Schedule 12C provides that the ISO cannot perform its cost allocation analysis until after the applicant has obtained Section I.3.9 approval from the ISO and a TCA application is submitted to the ISO for review.¹⁸ The ISO could not have performed a full cost allocation analysis until well after the project was first listed on the Regional System Plan.

The Determination Letter was, therefore, neither untimely nor unfair but rather was issued after the approval of the I.3.9 approval for the project and after the TCA application was submitted to the ISO.

¹⁶ Dispute Notice at 5.

¹⁷ *Id.*

¹⁸ ISO OATT, Schedule 12C ("If submission of a proposed plan for a Transmission Upgrade by a Participant for review pursuant to Section I.3.9 of the Transmission, Markets and Services Tariff is required, then the approval for Transmission Upgrade cost allocations as described under this Schedule 12C of this OATT cannot occur sooner than after that review has been completed and it has been determined, pursuant to Section I.3.9 of the Transmission, Markets and Services Tariff, that the Participant is free to proceed with implementation of the proposed Transmission Upgrade.").

D. UI Failed to Demonstrate That the Spare Equipment Constitutes PTF

The Dispute Notification also challenges the ISO's determination that the spare equipment included in the TCA application may not be treated as Pool-Supported PTF. The Dispute Notification states: "[t]he spare auto transformer, reactor, and cables are critical to the Project's reliable operation, are subject to long delivery times if ordered, and are not the type of equipment that is subject to normal periodic replacement."¹⁹ The Dispute Notification contends that "ISO-NE exceeded its Schedule 12C authority in determining in its Findings and Determination that the spare equipment 'does not meet the definition of PTF.'"²⁰ According to UI, ISO-NE should have identified the costs of the spare equipment as Localized Costs in its Findings and Determination."²¹

This argument is incorrect. As explained above, Schedule 12C does not limit the ISO's TCA application review process simply to identifying Localized Costs. It is clear that the ISO must also determine as a threshold matter whether a particular facility qualifies as the type of upgrade (based on Schedule 12 classifications) that can even be subjected to Localized Cost review under Schedule 12C.

Furthermore, the Determination Letter correctly found that the spare equipment does not constitute PTF. As the ISO OATT explains, "PTF ... are the transmission facilities owned by PTOs, over which the ISO shall exercise Operating Authority in accordance with the terms set forth in the TOA, rated 69 kV or above required to allow energy from significant power sources to move freely on the New England Transmission System."²² The ISO, however, does not exercise Operating Authority over these spare parts because they have not yet been placed into service. While the Participating Transmission Owner Advisory Committee has identified the issue of the exclusion of spare parts from the regional Pool-Supported PTF rate as one that requires additional review, the PTOs have not yet put forward a proposal for including such costs in the regional rate.

¹⁹ Dispute Notice at 5.

²⁰ Dispute Notice at 6.

²¹ *Id.*

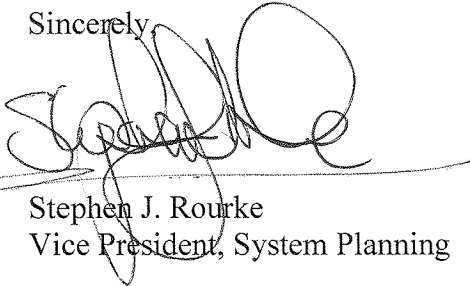
²² ISO OATT § II.49.

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III. CONCLUSION

The ISO has reviewed its determination in light of the provisions cited in the Dispute Notification and as subsequently communicated to the ISO at the April 11, 2011 meeting between UI and the ISO. The ISO has carefully reviewed the Tariff provisions at issue and determined that it has correctly exercised its authority in its review of whether all facilities that were included in the M-N Project TCA for regional Pool-Supported PTF treatment met the threshold requirements for such treatment. As reviewed above, the ISO found that the elements at issue in the Dispute Notification did not meet the Tariff criteria set out for PTF and were properly addressed in the ISO's TCA determination.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Rourke", is written over a horizontal line. The signature is stylized and cursive.

Stephen J. Rourke
Vice President, System Planning

cc: TCApps
Reliability Committee