TRANSMISSION COST ALLOCATION PRINCIPLES

1 Base Case Transmission Plans ("Base Cases") developed by individual transmission owner/transmission service provider ("TO/TSP") and developed for region-wide requirements will be the primary determinants of the transmission cost allocation category(ies) associated with a transmission project. (Base Case is a transmission plan spanning an agreed-upon planning horizon that provides for least-cost transmission system modifications and project additions sufficient to meet the transmission planning criteria for projected end-use load.)

2 Least-cost transmission system planning of the Base Cases should consider and, as appropriate, incorporate the effects of energy efficiency, demand-side management, and distributed generation, consistent with local, state, regional, and federal resource planning guidelines or requirements.

3 Transmission cost allocation categories are (i) network reliability, (ii) dedicated Resource integration, (iii) non-dedicated Resource integration, (iv) integration (radial or looped) of end-use load at new delivery points, and (v) congestion relief or other, optional upgrades.

4 Transmission costs and changes in costs, both absolute and temporal, should be stated as an NPV, discounted to a common year.

5 An investment and incremental capacity rights, if any, in new transmission project (including new lines, new substations and switching stations, new voltage/power flow control facilities, and any other system additions increasing the delivery capability of the power system) in category (i) ("C1") in the region-wide Base Case which eliminates or defers the need for one or more projects in the Individual Base Case of more than one TO/TSP should be allocated among affected TO/TSPs such that (A) no affected TO/TSP is better off than in its standalone Base Case, subject to (B) no affected TO/TSP is worse off than in its standalone Base Case.

   a For example, if Project X eliminated or deferred transmission investment of TO/TSP "A" such that its standalone Base Case went from $50 million

NPV to $30 million NPV, while the transmission project, prior to cost allocation, would increase the transmission investment of TO/TSP "B" from $100 million NPV to $115 million NPV, then the project costs should be allocated such that TO/TSP "A" had $45 million NPV and TO/TSP "B" had $100 million NPV.

6 Investment in a C2 transmission project should follow a two-step process: First, the amount, if any, of savings in the region-wide Base Case should be determined. Any such savings should be allocated in accordance with paragraph 5. Second, the remaining investment should be borne by the new Resource participants (as mutually agreed among the participants).

7 Investment in a C3 transmission project should be borne by the new Resource participants, provided, however, at such time or to the extent the Resource becomes dedicated to serve end-use load identified in the Base Cases, the process in paragraph 6 should be applied as if the physical, in-service date of the project occurred upon its eligibility date as a dedicated Resource.

8 Investment in a C4 transmission project should follow a two-step process: First, the amount, if any, in savings in the region-wide Base Case should be determined. Any such savings should be allocated in accordance with paragraph 5. Second, the remaining investment should be borne by the load-serving entity(ies) responsible for the new end-use load.

9 Investment in a C5 transmission project should follow a two-step process: First, the amount, if any, in savings in the region-wide Base Case should be determined. Any such savings should be allocated in accordance with paragraph 5. Second, the remaining investment should be borne by voluntary participation determined through an "open-season" process.