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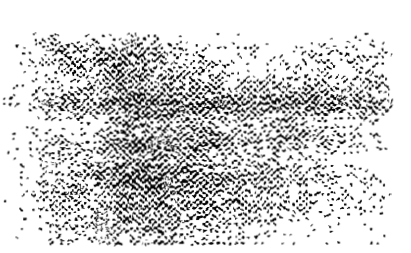
Florida Municipal Power Agency



Jody Lamar Finklea
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VIA HAND DELIVERY

September 16, 2003

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Ms. Blanca S. Bayó, Director
Division of Commission Clerk and
Administrative Services
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Ms. Bayó:

Re: Docket No. 020233-EI
Comments of Mr. Bob Williams, Florida Municipal Power Agency
Joint FPSC/FERC GridFlorida Technical Conference, Participant Funding Panel

Enclosed please find one (1) original and fifteen (15) copies of the written comments of Mr. Bob Willaims, Florida Municipal Power Agency (the Comments), as provided at yesterday's Joint FPSC/FERC GridFlorida Technical Conference. The Comments are submitted for filing in the above referenced docket. Please also find the enclosed diskette, containing an electronic version of the Filing in Adobe® Acrobat® (.pdf) format.

Please acknowledge receipt of these documents by time/date stamping the enclosed additional copy of this filing, as indicated.

Very truly yours,

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Jody Lamar Finklea
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Comments of Bob Williams, Florida Municipal Power Agency
Joint FPSC/FERC GridFlorida Technical Conference
Participant Funding Panel
September 15, 2003

Florida Municipal Power Agency appreciates the opportunity to participate in this conference on an issue critical to the ability of load serving entities in Florida to continue to provide economic and reliable service to their customers: participant funding of transmission upgrades. As discussed below, while participant funding may be beneficial for other regions, it will would not be beneficial and indeed would be counterproductive for Florida.

What is participant funding? While not clearly defined in the SMD NOPR or the FERC White Paper, participant funding is a new concept for transmission financing that seeks to make specific market participants, *e.g.*, new generators, solely responsible for paying for transmission upgrades. In exchange for coming forward to fund a particular transmission upgrade, the market participant would receive financial transmission rights – rights to congestion revenues associated with the additional transfer capacity created by the upgrade.

Participant funding is thus intertwined with a particular energy market design and congestion management scheme – locational marginal pricing – which the FPSC has questioned in its October 28, 2002 SMD Comments to FERC (¶¶ 7-9). It subjects the planning and construction of certain grid improvements (*i.e.*, so-called "economic upgrades") to the willingness of individual market participants to step forward to provide

the funding on the basis of the value it expects from the rights to future congestion revenues, as measured by the LMP differences, on the "path" decongested by the upgrade.

Participant funding also requires a regional transmission organization or an independent system operator to provide the centralized bid-based security-constrained dispatch needed to calculate LMPs and to provide the independence required for fair and impartial implementation of this new pricing concept. FERC has properly found that in the hands of a vertically-integrated transmission owner, participant funding invites discrimination.[1] The required identification of the purpose, effect, and beneficiaries of upgrades to the integrated grid, which in almost all cases will have multiple and changing purposes, effects, and beneficiaries, is a tremendously complicated and controversial endeavor that will inevitably require somewhat arbitrary assumptions, approximations, and over-simplifications that cannot be left to parties with an interest in the outcome.

What participant funding is not: Participant funding is not a means to evade comparability requirements. Transmission owner and transmission dependent utilities are equally "native" and must be treated comparably in terms of treatment of upgrades required for load growth, new network resources, etc. FMPA and its members have long borne their share of the costs of the FPC and FPL grids, as well as bearing the costs of their own significant transmission investments.

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[1] *See* Standardization of Generator Interconnection Agreements and Procedures; Final Rule (July 24, 2003), 68 Fed. Reg. 49,846, 49,901 at P 677, 49,903-04 at P 696 (August 19, 2003). The Generator Interconnection Rule permits participant funding where an independent operator has been approved and will take full control of grid facilities within a year. *Id.* at 49,904 at P 699.

Participant funding is distinct from "direct assignment." Direct assignment pertains to facilities not properly considered part of the integrated transmission network, *e.g.*, interconnection facilities, distribution facilities. Participant funding pertains to transmission facilities that are part of the integrated grid.

Participant funding also is distinct from direct assignment in terms of process. It is not a process where the transmission provider decides what needs to be built and then dictates which market participants must pay. Rather, the RTO is to act as a clearinghouse for projects initiated by market participants responding to LMP price signals.

Is participant funding good for Florida? Participant funding is designed to fix problems Florida doesn't have now, and is unlikely to have in the future. The drumbeat in favor of participant funding emanates from parts of the Southeast that are claimed to be flooded by merchant generators that are taking advantage of access to fuel by building plants not needed to serve regional load; instead, these generators seek to export the output and require transmission upgrades to effectuate such out-of-state sales. State commissions, such as Louisiana and Kentucky, have strongly opposed having local ratepayers foot the bill for upgrades required to benefit electricity customers in other states. Participant funding would benefit such export states by placing the upgrade costs on the merchant generators, which would then shift the costs to customers in import states.

Florida, on the other hand, is now and is likely to remain, an import state. Given its location in the grid and suboptimal access to fuel, it is likely to remain that way. As

recognized in the FPSC's December, 2001 GridFlorida Order at 16,[2] Florida "is considered an 'ending point' of the nation's electric transmission grid," resulting in "relative isolation from national trading hubs," and the requirement that "generation necessary to meet Florida's growing electricity demand must be: (1) built within the state. . . ."

The need for participant funding is made even more remote by restrictions on merchant generation in Florida, as also recognized in the FPSC's December, 2001 GridFlorida Order.[3] But even if the Florida law restricting merchant generation were changed, Florida is unlikely to be subjected to export-driven upgrades.

Florida is not only unlikely to benefit from participant funding's protection of export states, but is likely to be harmed by the concept. Participation funding is a step backwards from the Peninsular-wide planning that the FPSC has identified as a benefit of GridFlorida in its December, 2001 Order, and the pro-active, integrated GridFlorida Planning Protocols that the FPSC and FERC have endorsed. It will be dangerous for Florida to rely on this untested concept. For the reasons discussed below and in the attachments, participant funding will most likely discourage, rather than encourage, the prompt construction of upgrades designed to most efficiently meet Florida's needs. As a result, Florida consumers will be exposed to less efficient, more expensive upgrades, needlessly high electricity costs, increased opportunity for the exercise of market power

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[2] Order No. PSC-01-2489-FOF-EI, *In re: Review of Florida Power Corp.'s earnings, including effects of proposed acquisition of Florida Power Corp. by Carolina Power & Light*, Docket Nos. 000824-EI *et al.* (December 20, 2001) (hereinafter December, 2001 GridFlorida Order).

[3] "[A]t present, competition in the wholesale market is limited to incumbent generation companies and to a limited class of independent power producers willing to risk building peaking units which are exempt from the Florida Electric Power Plant Siting Act in the hope that a Florida competitive market will develop." December, 2001 GridFlorida Order at 12.

and decreased reliability, inviting events such as the recent blackout in the Northeast and Midwest.

The FPSC-filed and approved[4] GridFlorida Planning Protocol (Attachment N to the GridFlorida OATT) recognizes the critical importance to Florida of a "comprehensive, GridFlorida-wide transmission plan ... that effectuates the reliable and efficient planning of the Transmission System so as to meet the needs of all users of the Transmission System." *Id.*, Section I at Sheet 197. The Planning Protocol properly puts the emphasis on efficient, multi-purpose upgrades:

> The Transmission Provider shall seek out opportunities to coordinate or consolidate, where possible, individually defined transmission projects into more comprehensive cost-effective developments subject to the limitation imposed by prior commitments and lead time constraints. This multi-party collaborative process is designed to ensure the development of the most efficient and cost-effective GridFlorida Plan that will meet reliability needs and expand competitive markets, better integrate the grid, and alleviate congestion, while giving consideration to the inputs from all stakeholders.

Id., Section VI at Sheet 204.

Participant funding would be a giant step backwards from GridFlorida Planning Protocol's comprehensive and efficient approach to planning. It would require the RTO to draw an artificial "bright line" between economic and reliability upgrades, ignoring the multi-purposes and interrelatedness of all additions to the dynamic, integrated AC grid.

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[4] *See* Order No. PSC-02-1199-PAA -EI, *In re: Review of GridFlorida Regional Transmission Organization (RTO) Proposal*, Docket No. 020233-EI. (September 3, 2002) at 29-31. Although FERC and the FPSC approved different versions of the Planning Protocol (FMPA prefers the FERC-filed version that was broadly supported by GridFlorida stakeholders), both contain language requiring efficient, consolidated planning and expansion. Indeed, FERC's Order Provisionally Granting RTO Status expressly directed GridFlorida to provide more detail addressing "particularly how it will use this [planning] process to ensure that efficient investments are made to make generation markets more competitive, increase import capability, and improve reliability." *GridFlorida*, 94 F.E.R.C. ¶ 61,363 at 62,376 (2001), *reh'g pending.*

Most efficient upgrades have multiple uses and beneficiaries, and in any event, those uses and beneficiaries can change over time. For example, transmission facilities built by FMPA and others to transmit energy from the new Cane Island generation also provides needed support to what previously was a weak area of the Florida Power Corp. system.[5]

Instead of fostering upgrades that on an efficient, consolidated basis meet multiple purposes, participant funding would promote earmarked upgrades, designed to yield congestion revenue rights for their funders. Such narrowly targeted upgrades will be difficult to construct. It will be nearly impossible to demonstrate the public benefits required for siting and the exercise of the power of eminent domain on the basis of a congestion revenue stream sought by the funding market participant. If such targeted upgrades somehow managed to get built, such suboptimal solutions would likely lead to unnecessary duplication in the long run, needlessly adding to the cost and environmental impacts that Floridians must bear.

Thus, participant funding will likely result in no upgrade or delayed upgrades, with Florida's reliability suffering while market participants engage in a game of chicken, waiting for someone else to fund essential improvements based on the speculative long-term value of transmission rights. Alternatively, it will produce inefficient upgrades – the minimum needed to maximize future congestion revenues – and make the funding market participant a formidable opponent to efficient "lumpy" upgrades that meet region's needs but reduce the value of its congestion revenue rights.

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[5] The recent 10 hour outage of the City of Lake Worth due to a train accident damaging its current single interconnection with the Florida grid highlights the reliability need for a second line.

Given the severe challenges entailed in siting transmission, or even major new generation, in Florida, it is imperative that we adopt a planning and expansion process, and a funding mechanism, that facilitates prompt construction of those upgrades that are efficiently sized and designed to address multiple problems at lowest cost to consumers and the environment. Transmission rights-of-way are very limited resources that should be used for the greatest public good (not effectively auctioned off to those willing to pay up front). Floridians will be harmed by a policy that fosters the design and implementation transmission upgrades designed to create the greatest profit for the individual market participants that agree to fund them.

In addition, participant funding raises a number of basic issues:

- Fundamental equities issues: Where load has been paying same rolled-in transmission charge as everyone else, is it a "benefit" to a particular load in a congested portion of the system, for which it should be incrementally charged, to upgrade the system to bring its access to the competitive market to the level others enjoy?

- Fundamental comparability issues: New generation is subject to participant funding, while incumbents enjoy rolled-in treatment for old and potentially new generation at well-served sites.

- Fundamental issue for resource generation adequacy: The congestion revenue rights awarded for participant-funded upgrades (*i.e.*, based on the increased transfer capacity created by the upgrades) are not in a form that does much good for Florida load serving entities. For example, load serving entities cannot finance or otherwise commit to a new, 300 MW generating unit based on FTRs reflecting the increased transfer capability created by an upgrade, *e.g.*, 50 MW of the 300 MW plant. In this way, participant funding will impair the ability of Florida utilities to meet the FPSC's reserve requirements.

For these and other significant reasons, a wide range of stakeholders (including consumer groups, public power, cooperatives, and some investor-owned utilities) have opposed legislation that would mandate participant funding.[6]

What facilities should be participant funded? If, despite the likelihood that participant funding would harm Floridians, the FPSC is determined to press for adoption of participant funding, the concept should be limited to situations where it is most likely to work for the benefit of Floridians. In that regard, we agree with the April 28, 2003 FERC White Paper (Appendix A at 13):

> The RTO or ISO must also be responsible for transmission planning, and for directing or arranging, necessary transmission expansions, additions, and upgrades that will enable it to reliably and economically serve the needs of all customers in the region, including historical and native load customers and their projected load growth. The RTO or ISO would include transmission upgrades in the regional plan that are necessary to maintain or improve reliability or to reduce congestion and improve access to lower cost supplies (economic enhancements).
>
> Economic enhancements would be included in the regional transmission plan with the costs recovered through the license plate or postage stamp access charges, if it is prudent to do so from the perspective of native load in the region.

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[6] *See* April 28, 2003 joint statement of Alliant Energy, American Public Power Association, American Transmission Company, Calpine Corporation, Consumers for Fair Competition, Electric Consumers Resource Council, Electric Power Supply Association, Minnesota Power, National Grid USA, National Rural Electric Cooperatives Association, PacifiCorp, Transmission Access Policy Study Group, WeEnergies, appended hereto as Attachment A.

FMPA assumes that "native load" as used in the White Paper includes transmission native load, including TDUs (who have borne their fair share of the infrastructure costs for decades), rather than just the power customers of the transmission owners.

In addition, we attach TAPS' Balanced Principles for Planning and Expansion,[7] which FMPA supports. The TAPS approach would:

- Roll in the costs of upgrades required to provide load reasonable access to the competitive market, accommodate load growth, meet state and federal adequacy requirements, achieve and maintain simultaneous feasibility of existing firm transmission rights and FTRs, and facilitate major regional/interregional transfers;

- Leave room for participant funding of DC lines and the integration of new generation that imposes extraordinary requirements not consistent with RTO's long term plan to meet its other planning obligations;

- Even where a form of participant funding is applied, FTRs should be assigned in way that supports LSEs' generation commitments. That is, long term FTRs should be allocated through network resource designation process, which should in turn be integrated into the planning process for delivery of the resource to load. Where resources are not committed to Florida as network resources, the generator would be assigned FTRs for the incremental transfer capability created by the upgrade.

In sum, FMPA looks forward to working with stakeholders and the FPSC to create a GridFlorida that will be designed to benefit Florida consumers. In our view, that can best be achieved by minimizing the role of participant funding, and focusing on the efficient, multi-purpose rolled-in upgrades that will maximize the ability of all load serving entities in Florida consumers to continue to provide reliable service at reasonable cost.

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[7] TAPS Balanced Principles for Planning and Expansion are appended hereto as Attachment B.

Alliant Energy
American Public Power Association
American Transmission Company
Calpine Corporation
Consumers for Fair Competition
Electric Consumers Resource Council
Electric Power Supply Association
Minnesota Power
National Grid USA
National Rural Electric Cooperatives Association
PacifiCorp
Transmission Access Policy Study Group
We Energies

April 28, 2003

We are writing to express our opposition to the addition of **transmission participant funding** provisions mandated by Congress to the April 25, 2003 Chairman's Mark electricity title.

Many issues associated with transmission expansion preclude the type of "one-size-fits-all" approach that proponents of mandatory participant funding advocate. Flexibility is also essential to ensure timely improvements to the weak U.S. transmission infrastructure, and to allow consideration of appropriate methods for financing and assigning costs of specific projects, in light of the benefits provided. Transmission pricing should not be legislated.

Participant funding is a relatively new concept for transmission financing that seeks to make specific market participants (e.g. new generators) solely responsible for paying for necessary transmission expansion and improvements. In return for financing such projects, these market participants would be compensated with tradable financial transmission rights (FTRs), the value of which is uncertain. FTRs are a method of allocating transmission rights and are a component of the Federal Energy Regulatory Commission's proposed standard market design.

Proponents of mandatory participant funding argue that some regions export large amounts of power and that it is unfair to require local electric ratepayers to finance transmission upgrades from which they do not benefit. We agree. However, the solution to this problem is not mandatory participant funding for all transmission upgrades, as proposed. Appropriate transmission rate design can assure that the "right" customers pay for needed upgrades – even if the right customers are located in a neighboring state.

Further, the proposed participant funding statutory provision has a number of flaws that would make the already difficult task of getting new transmission built much harder:

- **Transmission projects almost always have multiple purposes and benefits.** Use and beneficiaries change over time as load grows and generation is added to or retired from the network. Requiring participant funding would mean the needed network additions would not be built until one user, or a set of users, committed to pay the full cost of facilities for the life of those facilities. This is unrealistic, as benefits will invariably accrue over time to other users and "free riders" will arise.

- **Participant funding will not save consumers money, because it undermines wholesale competition and is likely to perpetuate transmission congestion.** Ratepayers save money through reduced congestion costs and access to lower-cost generation. The cost of transmission represents less than ten percent of the cost of delivered power. Relying on a financing system that severely limits options for getting transmission built, and making those who may initially benefit from congestion responsible for its elimination, is certain to slow transmission expansion and increase overall costs for customers.

- **Participant funding undermines regional transmission planning and prioritizes the needs of certain market participants over others.** The optimal process for expanding the transmission grid is to plan and develop projects that meet multiple regional needs (*e.g.* increased transmission capacity, improved reliability and enhanced voltage support.) Participant funding takes the opposite approach and would approve and fund transmission improvements based on a "single need" analysis.

- **Participant funding creates a disincentive to upgrade the transmission grid to eliminate congestion.** This scheme proposes to compensate generators through FTRs, which hedge a generator's risk that the power they have paid to move over the transmission system will run into congestion. The value of an FTR is tied to the level of congestion: to the extent congestion is reduced, the FTR's value is reduced. Therefore, a market participant would be reluctant to fund an efficient transmission upgrade that would eliminate congestion and wipe out the value of its transmission investment. At best, participant funding promotes suboptimal expansion that "preserves" congestion and, likewise, the value of the FTRs.

- **Participant funding may make it more difficult to finance and build new electric power generation.** Generators already have a challenge in securing necessary financing to build new power plants. Adding the cost of transmission upgrades may make such financing impossible to secure – particularly when the "compensation" is ill-defined FTRs.

- **Participant funding will doom the already difficult task of siting transmission facilities.** Projects that meet multiple needs and have multiple beneficiaries will have the best chance to be sited. State regulators and the public will not be willing to support transmission projects that "run through their backyards" if they provide no local benefits. Participant funding, by its very design, meets the needs

of only individual market participants, which may be remote. The result is that transmission will not be built.

For all the reasons listed above, we believe the Congress should not mandate participant funding in the pending energy legislation. Further, such a mandate is not necessary. The Federal Energy Regulatory Commission has indicated a willingness to adopt participant funding, where appropriate. Forms of participant funding are already being undertaken in various parts of the country, notably in the PJM region. In addition, generators are already paying for many system improvements.

The undersigned stakeholders represent every sector of the electric utility – generation, transmission and distribution companies, public power systems, rural electric cooperatives and investor-owned utilities, large energy users and customers. **Despite our different perspectives and business plans, we are united in the belief that participant funding mandated by Congress will not promote the proper expansion of the transmission grid.**

We join together to urge you to oppose participant funding mandated by Congress and are available to meet with you or your staff to discuss these issues further.

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Balanced Principles for Electric Transmission Planning and Expansion

Participants in the electric utility industry are debating how to get new transmission built and who should pay. This is an extremely important issue. Competitive wholesale markets will fail if they are not supported by a robust transmission infrastructure. A weak grid will not only imperil reliability, but will also cause major market power problems, deprive customers of choices and create opportunities for market manipulation through the exploitation of congestion. While managing congestion is important, the objective of the FERC should be to minimize congestion and maximize generation competition by ensuring prompt construction of the transmission infrastructure needed for broad regional markets to benefit consumers. Otherwise, increasing congestion will shrink the scope of markets, dampen or kill competition and create a need for constant policing.

TAPS supports a regional Planning Model that vests responsibility for planning and expanding the grid in large regional transmission organizations (RTOs), rather than relying on market forces to drive new transmission construction. Transmission is a natural monopoly characterized by network economies, and, in many instances, can be built only with the use of the public power of eminent domain. Siting can be extremely difficult and delays are common. Siting authority rests in the states, rather than in the FERC, which creates further difficulties for meeting regional needs. For these reasons, simply relying on market signals to get needed new transmission built will not work.

These factors also make it unlikely that too much transmission will be constructed. To the contrary, transmission is becoming increasingly congested throughout the country, with little major transmission constructed in the last 10 years. For these reasons, and also because a robust grid is essential to generation competition, TAPS believes that FERC should err on the side of encouraging the construction of new infrastructure, rather than waiting to see whether a market-based construction regime will work.

TAPS also believes that a market-driven, participant funding system is not likely to work well because transmission lines have multiple purposes and provide simultaneous benefits to diverse parties, rather than to a single party or set of parties. This will create a significant free-rider problem discouraging needed investment. Most new lines will provide local voltage support and reliability benefits, as well as allowing new generation to serve area load and

increasing transfer capability for longer-distance transactions. The benefits of an upgrade in a network change over time, with changes in loads, generation and grid topography. These multiple and changing benefits suggest that the policy should be to roll-in the cost of most of the transmission improvements into rates, with all end-use load in the region paying its share of costs, in order to maximize reliability and competition for the benefit of everyone in the region, and not to wait until one or more participants agrees to pay the cost. Reliance on market participant funding is likely to result in upgrades that are pennywise, pound foolish – minimizing cost to the individual market participant funding the upgrade, instead of implementing more regionally useful alternatives. Efficiency and cost effectiveness will often require upgrades to be sized larger than is required for discrete, immediate needs.

With this background, TAPS proposes the following **Planning Model** for expansion of the grid:

1. **RTOs should develop least-cost expansion plans to meet regional needs**. An RTO should carry out its planning and expansion obligations pursuant to a least-cost plan designed to meet the needs of its region and developed through an open, public planning process. The plan should consider generation and demand-side alternatives to transmission construction and seek to balance the needs of different states within the region. If LMP signals prove insufficient to motivate efficient generation siting, the RTO should have the ability to propose credits for new generation that relieve constraints or otherwise avoid the need for expensive transmission construction and then roll the cost of such credits into its transmission rates.

2. **RTOs should be obligated to construct, or cause construction of, needed new facilities**. The types of transmission facilities that the RTO should have an obligation to construct, or cause to be constructed (through competitive bidding, where feasible), should encompass all facilities for which the incremental benefits for the region exceed the incremental costs and for which the benefits accrue to many market participants. These facilities should include:
   a) ***Reliability/adequacy***. Facilities needed to meet NERC, regional and state transmission reliability standards and to support the deliverability of required regional capacity and operating reserves.
   b) ***Accommodating load growth***. Facilities necessary to achieve and maintain reasonable quality of service standards, no less than current standards, as regional load grows.
   c) ***Preserving existing transmission rights***. Facilities necessary to provide for the simultaneous feasibility of FTRs for all existing firm transmission rights, if insufficient capacity exists to match all existing firm rights with equivalent FTRs when FTRs are initially assigned.
   d) ***Providing loads with access to the competitive market***. Facilities needed to provide all loads with reasonable access (that is, without significant congestion charges) to regional competitive generation markets. The RTO should construct and roll-in essential "four lane highway" facilities into and out of load and generation pockets and minimize existing inequities as a result of grid topography. Transmission upgrades should be constructed and rolled-in if they are needed to increase transmission capability into areas where market power mitigation is needed on more than an infrequent basis.

e) ***Maintaining existing FTRs***. Facilities needed to maintain the simultaneous feasibility (but not the value) of existing FTRs that have been allocated or sold to market participants. This construction is crucial for the viability of long-term FTRs needed to support existing and future generation.

f) ***Facilitating major regional, inter-regional power transfers*** through major transmission facilities that integrate markets within an interconnection.

g) ***Integrating new generation into the regional grid.***

3. **Transmission expansion costs should be recovered in rates, primarily on a rolled-in basis, but using a rate design that assigns a portion of the revenue requirement to generation.**

a) The costs of new transmission facilities should be recovered in RTO transmission rates on a rolled-in basis, offset by any incremental assignment of network upgrade costs to load-serving entities (LSEs) for long-term, network resources or to generators, as described below, and also offset by revenues from sales of short- and intermediate-term financial transmission rights (FTRs). Auctions of short- and intermediate-term FTRs should come after assignment of long-term FTRs, as described below. Long-term FTR holders should be allowed to sell their FTRs on a short- or intermediate-term basis in a secondary market.

b) In order to avoid saddling local load with an inequitable share of the costs of transmission that enables long distance sales of power and energy, transmission rate design for network access service should distinguish between (i) regional highway facilities, (ii) local load-serving facilities and (iii) supply-related facilities assigned to generation, including generators used for out-of-area export sales, consistent with the rate design concept proposed by TRANSLink. This rate design appropriately seeks to spread costs for regional highway facilities to everyone in the region and costs for the local area grid to the local area load and generators.

4. **Recovery of the costs for facilities needed for new generation may have an incremental cost assessment component.** TAPS supports roll-in of network upgrades to integrate a new generator into the regional grid, unless the costs of the upgrades are extraordinary and the facilities required are not consistent with the RTO's long-term plan to meet its other planning and construction obligations described above. If an assignment of incremental costs is determined to be appropriate under this test, an RTO may use a hybrid rate approach. A hybrid approach may also be appropriate in the RTO context where some incremental cost assignment is found to be necessary in order to provide a price signal for efficient generation siting.

Under this hybrid approach, a portion of the costs of the upgrade that would not be otherwise incurred ("but for" costs), after taking account of system benefits that the upgrade will provide to others, may be assigned to the LSE that has designated the generator as a long-term network resource and/or to the generator itself to the extent the generator is not designated as a long-term network resource by an LSE. In the case of very large regions,

similar incremental cost assignment would apply for upgrades outside of the sub-regional grid required due to an LSE designation of a new network resource outside of the sub-regional grid or a generator request for long-term access to a control area system or node beyond the sub-regional grid.

The cost of facilities interconnecting a generator to the grid may be directly assigned, provided that comparable rate treatment is put into effect for existing generators.

5. **Long-term FTRs should be assigned to LSEs for long-term network resource commitments**. In addition to assigning long-term FTRs to preserve existing firm transmission uses and generation commitments, the RTO should allocate long-term FTRs (that is, three years or greater, depending on the availability of a workable market for FTRs of shorter terms) for new network resources dedicated to meeting a load-serving obligation in order to assure the transmission availability and price stability necessary to support and finance new long-term generation commitments at reasonable cost. An LSE should be entitled to an assignment of a long-term FTR for delivery of the full capacity of a network resource to its load, up to the life of the resource commitment, if transmission capacity is available without a network upgrade or as a result of an upgrade that qualifies for rolled-in cost treatment. An LSE also should be entitled to a long-term FTR for the full capacity of a new network resource if the LSE is willing to bear incrementally any "but for" costs that qualify for incremental cost assignment, as described above.

6. **Long-term FTRs also should be available to generators that bear incremental upgrade costs**. To the extent a generator is (i) subject to an assignment of incremental "but for" costs for a network upgrade that does not qualify for full rolled-in treatment, and (ii) has not been designated as a long-term network resource by an LSE to whom the incremental "but for" cost has been assigned, the generator should be entitled to receive a long-term FTR matching the increased transfer capability created by the upgrade whose cost it has borne in part incrementally.

July 17, 2002