

Charter
Northern Tier Transmission Group
Cost Allocation Committee

I. Primary Goal

The Northern Tier Transmission Group (NTTG) Cost Allocation Committee (the Committee) has been created to meet the following goal:

To apply the Cost Allocation Principles consistently, openly and fairly while conducting analyses of cost allocations that accompany transmission project proposals developed in the NTTG planning processes and to make recommendations on cost allocations to the Steering Committee based on those analyses.

II. Composition of the Committee

Each regulatory commission, state consumer agency and publicly-owned or consumer-owned entity which is a member of NTTG shall be entitled to appoint one person to represent it as a member of the Committee. Each duly appointed Committee member shall serve until the member entity officially designates a replacement. Each member entity may appoint an alternate to serve in place of the regular member as the member entity's needs require. No regulatory Commissioner may serve as a Committee member.

III. Routine Analyses

The Committee will apply the Cost Allocation Principles in Section VII to the plans produced by the NTTG Planning Committee during two phases of the NTTG planning process.

First, during the study plan development and study phases, the Committee will provide preliminary and iterative analyses of the allocation of costs and benefits.

Second, the Committee will prepare written recommendations on cost/benefit allocations to be submitted as part of the annual and biennial Plan Reports to the Steering Committee.

IV. Operating Principles

The Committee will operate according to the following principles:

1. Coordination

The Committee will encourage coordination among the regulatory community, entities developing the transmission system and specific transmission projects, and entities that utilize and benefit from the transmission system.

It is the responsibility of project participants and not the Committee to determine the specifics of a project, including, without limitation, its scope, the lead entity or entities, project participants, and funding. For the Committee to perform its project reviews, developers,

requestors, and other interested stakeholders bear sole responsibility for providing sufficiently detailed data, analyses, and studies for all proposed projects on the benefits, costs, cost types, cost principles, and proposed benefit and cost allocations. The Committee will make the determination of whether it has sufficient information to proceed with its review.

2. Openness and Transparency, Exceptions

Committee meetings will be open to all stakeholders and the public to the extent possible. Meetings will be publicly noticed and conducted in accordance with applicable rules on the protection of critical infrastructure and on standards of conduct. The proceedings of the Committee will be transparent to all interested persons to the extent possible, recognizing the legitimate need to protect confidential and proprietary information.

3. Information Exchange

The Committee will, in conducting its meetings, provide a forum for the exchange of information among transmission owners and developers, regulators and entities that utilize and benefit from the transmission system.

4. Interconnection-Wide Scope

The Committee will encourage **efficient and comprehensive** Western Interconnection-wide planning over sub-regional planning wherever possible.

5. Dispute Resolution

Disputes arising with respect to the work of the Committee shall be resolved through the use of the following progressive dispute resolution process:

Step 1. An executive representative from each Party to the dispute shall participate in good faith negotiation to resolve the dispute between the Parties.

Step 2. An executive representative from each Party to the dispute shall participate in good faith negotiation with the participation of the full Cost Allocation Committee to resolve the dispute.

Step 3. An executive representative from each Party to the dispute shall participate in good faith negotiation with the participation of the full Steering Committee to resolve the dispute.

Step 4. If executive level negotiations in Steps 1, 2 and 3 are unsuccessful in resolving the dispute, the Parties shall participate in mediation as defined in Appendix C of the WECC bylaws.

Step 5. If mediation in Step 4 does not resolve the dispute, the Parties shall participate in binding arbitration as defined in Appendix C of the WECC bylaws.

Step 6. Any Party disagreeing with the arbitration decision in Step 5 may appeal the arbitration decision to the FERC or to a court of competent jurisdiction.

Need to reconcile with Steering Committee Charter and obtain Steering Committee advice.

Taken from the current draft NTTG Planning Agreement.

6. Collaboration

The work of the Committee on transmission project plans will be undertaken in collaboration with the various concerned regulators to facilitate the observance and implementation of state and national energy environmental, water and other policies, to encourage thorough information sharing, and to enhance and facilitate project permitting, financing and construction. In all such collaboration, openness and the strict avoidance of the appearance or fact of pre-judgment or other unfairness are required. The Committee will encourage project developers and other stakeholders to be similarly open and forthcoming in their dealings with entities having jurisdiction over any aspect of their projects.

7. Avoiding Duplication

To the extent possible, the Committee will rely on technical studies conducted by project sponsors and others and studies conducted in other forums. NTTG will perform technical study work which does not duplicate the work of others. The Committee will be the sole judge of the extent to which it will be required to engage in further technical study with respect to a project.

8. Shared Workload

Members of NTTG are encouraged to share the study workload. In general, members will study the areas where they have interest and expertise. The results of individual work will be shared among the members of NTTG.

9. Process, Ex Parte Communications and Related Matters

The success of the Committee rests in the credibility of its work, and all persons having business before it have a right to expect a fair process that is respectful of confidential information but is as open and transparent as possible, allowing for the greatest achievable level of public participation. State regulatory agencies must avoid both the appearance and the fact of impermissible *ex parte* communications and the appearance of pre-judgment. Likewise, and consistent with NTTG's Standards of Conduct Policy and Safeguards, members of the Committee will avoid both the appearance and actual occurrence of impermissible *ex parte* communication. *Ex parte* requirements vary somewhat among states but generally apply to communications on the merits of an issue between project advocates or other parties and state adjudicators regarding projects that are the subject of pending or potential proceedings likely to be adjudicated.

To limit the possibility of *ex parte* communications, the Committee will conduct its business in an open and noticed manner, to a level generally consistent with the requirements of the NTTG member state regulatory agencies which would apply in a contested case. Deliberations by the Committee in which confidential information is discussed may be closed to the general public but will remain open to those persons furnishing the information to the Committee. The Committee will promulgate rules for its proceedings consistent with this requirement and based on its experience as NTTG continues its work.

Committee members and persons having business before the Committee shall promptly make a detailed written report to the Committee of any attempt to exert undue influence on or to otherwise engage in impermissible *ex parte* communication with a Committee member. The report will form a part of the public record of the Committee's examination of the project. After inquiry which will include discussion with the persons involved, the Committee may make such further decision as fairness and an open and credible process warrant. Among the remedies open to it, the Committee may decide not to provide further input on a project or, by unanimous vote, to make the ethical violation public by posting it on the NTTG website.

If the state commission's designated representative (or alternate) is a member of the Committee, with respect to the Committee said individual will not be acting as a representative of a state commission. No action or position taken by the individual or the Committee will preclude a state commission from taking contrary actions or positions in proceedings before it or other regulatory bodies.

The Committee's recommendations shall not be framed as decisions binding on individual state members and shall state clearly that each state retains its decision-making prerogatives. No action or position taken by a state commission's representative or by NTTG shall preclude a state commission from taking conflicting action consistent with its jurisdiction or constitute pre-judgment of any issue in a proceeding before it.

10. Decisions

The Committee will strive for unanimity in its decisions, actions and recommendations. Where this is not achieved, the Committee may proceed by a majority vote. Minority opinions, with the reasons therefor, will be recorded and summarized in any written material forwarded to the Planning or Steering Committees. Unanimous votes are required to make changes in cost allocation principles or to publicly censure a person under subsection IV.9 above.

V. Major Committee Tasks

1. Document present cost allocation methods used in the footprint and western states for specific projects.

2. Review new pricing, cost recovery, and joint tariff proposals for NTTG.

3. Represent NTTG in regional and national transmission pricing, regulatory, and cost allocation forums.

4. Make recommendations on cost allocations for incorporation into the annual and biennial plans submitted to the Steering Committee

5. Other tasks and analyses as needed to carry out its function and to promote coordinated and successful transmission planning in the NTTG sub-region and the Western Interconnection as a whole.

VI. Cost Allocation Process

1. Basic Information Requirements

When a project proposal is submitted for inclusion in the NTTG Planning Process, the project developers or other stakeholders, in collaboration with the NTTG Planning Committee, will also prepare an application package and transmit it to the Committee for its review. Upon the developer's request, the NTTG Planning Committee may provide its assistance. The project developers shall provide the following information with the application:

- a. Project description
- b. Physical location
- c. Cost/benefit analysis
- d. Investors (description and interest)
- e. Operator
- f. Subscribers/Contracts
- g. Pertinent transmission study results
- h. A copy of the WECC Phase 2 reliability determinations relative to the project
- i. Proposed siting process
- j. Proposed cost allocation
- k. Proposed cost recovery
- l. A risk and benefit analysis focusing on the distribution of costs, benefits and risks among the parties proposed to share in the cost allocation of the project.
- m. Proposal on dealing with cost overruns
- n. Degree of consensus among stakeholders on all of the above
- o. How each NTTG cost allocation principle was applied in the analysis
- p. A description of any regulatory rulings needed prior to examination of the project
- q. Any NTTG Planning Committee analysis pertinent to the project and a description of how it fits into the NTTG Annual or Biennial Plan
- r. Description of any proprietary or commercially sensitive information applicants believe should remain confidential during the review process

To facilitate the Committee's work, this information must be updated promptly and regularly as soon as more relevant information becomes available during the course of the NTTG Planning Process.

2. Application Intake and Initial Determinations

The Committee shall take the following actions within 45 days of receipt of an application:

- a. Make a general determination of the completeness of the application and its readiness for consideration. If it is incomplete, the Committee will inform the developer about the necessary additional information.
- b. Decide what, if any, information is to be kept confidential during the review process (with an emphasis on the greatest possible degree of openness and transparency in order to encourage public discussion and input during the NTTG Planning Process).
- c. Determine whether and to what extent the application has fairly observed the NTTG's cost allocation principles.
- d. Provide all applications to the NTTG Steering Committee.

3. Examination of Applications

The Committee shall review the project developers' initial application and analysis and, in addition to examining the cost allocation, shall examine the distribution of benefits and risks the project itself and further in the context of all projects under consideration in the Study Plan Development and Study Phase of the NTTG Planning Process. This examination will include a review of adherence to the Cost Allocation Principles referenced in Section VII.

The analysis will be updated and presented publicly as required by the NTTG Planning Committee's timeline for the Planning Process. The Cost Allocation Committee will take information and views orally or in writing from any person involved in a proposed project or the preparation of the application as well as from interested regulators, consumers and other interested persons. Further procedural rules for the examination of applications will be added later as experience dictates.

Reaching agreement on an appropriate cost allocation that satisfies the criteria of the proposed cost sharing participants for an adequate relationship between risks and benefits is not simply a process of technical analysis but will likely also involve negotiation and persuasion. Evidence descriptive of this process will be helpful to the Committee in reaching recommendations to the Steering Committee and to the Steering Committee, in turn, in making recommendations to state and federal regulators. At a minimum, the evidence to be provided must include [i] a description of meetings held and the process used, and [ii] statements by all entities which will be asked to share in the costs of the project of their views on the fairness and adequacy of the proposed cost allocation.

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4. Recommendation to Steering Committee

Based on its analytical work, application of the Cost Allocation Principles, and input from the public processes described above, the Committee shall provide recommendations on cost/benefit allocations for inclusion in the NTTG Plan Reports submitted to the Steering Committee for approval.

5. Steering Committee Review [Note make sure the Steering Committee Reads No. 5]

If it is satisfied with the recommendations of the Cost Allocation Committee in the submitted Plan Report, the Steering Committee will issue a determination letter on the project to each affected authority having siting, cost recovery and other jurisdiction over it, describing the extent to which the project complies with NTTG cost allocation principles. The Steering Committee may, in the alternative, decline to issue a determination and send the project back to the Committee for modification or clarification. The determination letter will discuss the extent to which the project developers have provided adequately for project cost recovery, including any evidence produced to support allocation of any portion of the costs on the basis of reliability enhancement. In its review, the Steering Committee will ensure that all of the NTTG cost allocation principles have been observed and fairly applied. Further procedural rules for the conduct of the review will be added later as experience dictates.

6. Updated Information

The project developers will provide updates on any or all of the application items listed above as the project progresses through construction. The Steering Committee will determine whether any changes are significant enough to trigger additional review of the project.

Significant changes might include, for example, a 15% increase in project costs, a 10% increase in the length of the line, and major unforeseen changes in the routing of the line or its capacity; but it is the workgroup's intent not to specify any bright line tests, relying instead on NTTG's experience as to whether any such thresholds are useful.)

VII. Cost Allocation Principles

1. Cost Allocation Principles

The Committee will apply the NTTG Cost Allocation Principles. For convenience, they are listed here.

Principle 1. As a matter of equity, cost allocations will reflect the classic principles that 'cost causers should be cost bearers' and that 'beneficiaries should pay' in amounts that are reflective of the benefits received.

Principle 2. Projects brought forward for consideration will be shown not to be in conflict with state and federal IRP, Competitive Bidding, RPS (Renewable Portfolio Standard), siting, certification and other policy and planning requirements affecting transmission development, to the extent they are applicable to the project. Selecting an efficient portfolio of remote generation, in-state generation and demand-side solutions requires that the proposed allocation of transmission project costs be known with clarity. Therefore, the NTTG process will encourage efficient and stable resource planning processes by which the project developer identifies the extent of cost allocation consensus for a proposed transmission project as soon as practical in the project life cycle, allowing the states to evaluate the proposed project for compliance purposes and to understand costs relative to other resource options. Regional and subregional planning resources should be utilized and the results demonstrated.

Principle 3. Cost allocations will result in a reasonable opportunity for the transmission owner(s) to achieve full recovery of the costs of the project, but no more.

Principle 3a. Transmission project costs should be directly assigned to a single transmission customer or allocated to multiple transmission customers or areas (or the entire region) based upon the distribution of benefits.

Principle 3b. Upgrades and other projects proposed on the basis of economic or other benefits for specific transmission customers will be accommodated if [i] the customers and/or transmission owner accept responsibility for the associated costs; [ii] the project does no harm to the network; and [iii] the project otherwise has no adverse impact on regional transmission service.

Principle 4. For Type 2 project costs as defined in the NTTG Cost Allocation Principles, the rest of the network and its customers will be held harmless and the

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transmission owner should look to its transmission customers for direct recovery of costs.

A full text of the NTTG Cost Allocation Principles and explanatory material may be viewed on the NTTG web site at <http://nttg.biz/>

2. No Limitation of Types of Costs Which May Exist in Any Project

Projects brought to NTTG for consideration may contain all types of costs described above. That is, projects which plan to address a variety of wholesale and retail needs in a single project are encouraged, as are other more narrowly focused projects. The proposed cost allocations for a project will be assessed objectively by the Committee regardless of the cost allocation proposed. All wholesale and other costs will be taken fairly into account as the Committee assesses the overall allocation of project costs.

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