

February 5, 2010

**VIA HAND DELIVERY & ELECTRONIC MAIL**

Luly E. Massaro, Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**RE: Docket 4140 – Annual Retail Rates 2010**  
**Responses to Record Requests**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's<sup>1</sup> responses to Record Requests that were issued at the Commission's evidentiary hearing on February 3, 2010, in the above-captioned proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Sincerely,



Thomas R. Teehan

Enclosures

cc: Docket 4140 Service List  
Leo Wold, Esq.

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<sup>1</sup> The Narragansett Electric Company d/b/d National Grid

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted, sent via US Mail, or hand-delivered to the individuals listed below.



\_\_\_\_\_  
Joanne M. Scanlon

February 5, 2010

Date

**National Grid – 2010 Annual Retail Tariff Filing**

**Docket No. 4140**

**Service List Updated 1/13/10**

<b>Name/Address</b>	<b>E-mail Distribution</b>	<b>Phone/FAX</b>
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Leo Wold, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	<a href="mailto:Lwold@riag.ri.gov">Lwold@riag.ri.gov</a>	401-222-2424 401-222-3016
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	<a href="mailto:David.stearns@ripuc.state.ri.us">David.stearns@ripuc.state.ri.us</a>	
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<b>File an original &amp; nine (9) copies w/:</b> Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick RI 02889	<a href="mailto:Lmassaro@puc.state.ri.us">Lmassaro@puc.state.ri.us</a>	401-780-2017 401-941-1691
	<a href="mailto:Cwilson@puc.state.ri.us">Cwilson@puc.state.ri.us</a>	
	<a href="mailto:Anault@puc.state.ri.us">Anault@puc.state.ri.us</a>	
	<a href="mailto:Nucci@puc.state.ri.us">Nucci@puc.state.ri.us</a>	
Jim Farley, TEC-RI	<a href="mailto:jfarley316@hotmail.com">jfarley316@hotmail.com</a>	
Jean Rosiello, Esq.	<a href="mailto:jeanrosiello@cox.net">jeanrosiello@cox.net</a>	

Record Request 1

Request:

Is the increase in the deferred tax liability resulting in a reduction in National Grid transmission expenses, a result of an IRS tax law change or a change in Company policy?

Response:

A Company change in an income tax accounting method is causing the increase in deferred tax liability. The Company changed its method of accounting for routine repair maintenance costs for income tax purposes. Similar to accelerated depreciation principles embedded in tax law, this change in accounting method results in expenses being recognized for tax purposes faster than such expenses are recognized for regulatory accounting purposes. For regulatory accounting purposes, the Company capitalizes expenditures if they constitute one or more "units of property".

The property units have been developed in order to conform to current and historic regulatory requirements as required by the Federal Energy Regulatory Commission ("FERC") and the other regulatory agencies. Prior to the change in income tax accounting method, the Company historically would follow regulatory accounting treatment for income tax purposes.

Record Request 2

Request:

How long has the Company taken to review the proposed tax change for their appropriateness and could the Company be challenged by the Internal Revenue Service?

Response:

On March 10, 2008 the IRS issued proposed regulations on deduction and capitalization of expenditures related to tangible property under Internal Revenue Code Section 263(a). Around this time the Company began considering an accounting method change that would reduce the quantity of assets that were capitalized consistent with these proposed regulations. In mid-2009 the Company determined that it would seek this change. We filed a IRS Form 3115, Application for a Change in Accounting Method, in August to begin this change with year ending March 31, 2010 ("FY2010"). On September 21, 2009 the IRS finalized Rev. Proc. 2009-39 that made the change an Automatic Accounting Method Change for all taxpayers. This means a taxpayer receives immediate approval to make the change upon the filing of IRS Form 3115. The Company determined it would be beneficial to withdraw the 3115 for FY2010 and submit an a revised 3115 immediately taking advantage of the new automatic option for the year ending March 31, 2009 ("FY2009"), which was due to the IRS on December 15, 2009. The Company filed Form 3115 for this accounting method change at the end of 2009 just prior to submitting our FY2009 tax return.

We believe the Company is entitled to a current deduction for routine repair and maintenance costs. This belief notwithstanding, the Company understands there is a risk the IRS could prevail in a challenge to certain judgments that have been made where there is a lack of guidance in tax law. On January 22, 2010, the IRS announced that this change is a Tier I issue and specifically focused its field agents on changes being made in the utility industry. Thus, the Company expects to debate the merits of its position on audit.

Record Request 3

Request:

Does the transmission formula rate at FERC include an un-collectible factor?

Response:

Yes. Schedule 21-NEP, Attachment RR, Item I.N., provides for the recovery of bad debt expense as recorded on New England Power Company's books in FERC Account 904. See Sheet No. 3122 in Schedule 21-NEP.

This provision provides for any recovery of bad debt expenses incurred by New England Power Company from its wholesale transmission customers. Approximately 94% of New England Power Company's transmission revenues are attributed to its affiliates, Massachusetts Electric Company, The Narragansett Electric Company, and Granite State Electric Company. The remaining 6% of transmission revenues are attributed to wholesale municipal customers connected to New England Power Company's transmission system.

ISO New England Inc.  
FERC Electric Tariff No. 3, Section II  
Open Access Transmission Tariff  
Schedule 21 – NEP

Original Sheet No. 3122

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or substantially affects an individual Network or Transmission Customer, NEP reserves the right to credit and rebill customers for each affected billing month in which the error occurred.

- M. Reactive Power Expense shall be set at zero as of the Second Effective Date, as defined in the NEPOOL Agreement.
- N. Bad Debt Expense shall be the bad debt expense as reported in Account 904 related to transmission billing.
- O. Miscellaneous Provisions In the event that the FERC accounts listed above are renumbered, renamed, or otherwise modified, the above sections shall be deemed amended to incorporate such renumbered, renamed, modified or additional accounts.

Record Request 4

Request:

Please provide the transmission formula rate revenue requirements in the ISO-NE Tariff, Schedule 21-NEP Attachments RR, and Section II of the ISO/RTO Tariff, Attachment F.

Response:

Please see Attachment RR from Schedule 21-NEP and Attachment F (Schedule 9) from Section II of the ISO New England Open Access Transmission Tariff, attached.

ISO New England Inc.  
FERC Electric Tariff No. 3, Section II  
Open Access Transmission Tariff  
Schedule 21 – NEP

Second Revised Sheet No. 3117  
Superseding First Revised Sheet No. 3117

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## ATTACHMENT RR

### Transmission Revenue Requirements

The Transmission Revenue Requirement will be determined based on the calculation shown below. In determining the rate for Local Network Service, the Revenue Requirement calculation as set forth below will be determined on a monthly basis.

- I. The Transmission Revenue Requirement shall equal the sum of NEP's (A) Return and Associated Income Taxes, (B) Transmission Depreciation Expense, (C) Transmission-Related Amortization of Loss on Reacquired Debt, (D) Transmission-Related Amortization of Investment Tax Credits, (E) Transmission-Related Amortization of FAS 109, (F) Transmission-Related Municipal Tax Expense, (G) Transmission Operation and Maintenance Expense, (H) Transmission-Related Administrative and General Expense, (I) Transmission-Related Integrated Facilities Credit, (J) Transmission Revenue Credit, (K) Distribution-Related Integrated Facilities Credit, and plus (L) Billing Adjustments; plus (M) Reactive Power Expense; plus (N) Bad Debt Expense.

- A. Return and Associated Income Taxes shall equal the product of the Transmission Investment Base and the Cost of Capital Rate.

1. Transmission Investment Base

The Transmission Investment Base will be (a) Transmission Plant, plus (b) Transmission-Related General Plant, plus (c) Transmission Plant Held for Future Use, plus (d) Transmission-Related Construction Work in Progress, less (e) Transmission-Related Depreciation Reserve, less (f) Transmission-Related Accumulated Deferred Taxes, plus (g) Transmission-Related Loss on Reacquired Debt, plus (h) Other Regulatory Assets, less (i) Allowance for Funds Used During Construction (AFUDC) Regulatory Liability, plus (j) Transmission Prepayments, plus (k) Transmission Materials and Supplies, plus (l) Transmission-Related Cash Working Capital.

- (a) Transmission Plant will equal the balance of NEP's Total Investment in Transmission Plant, plus NEP's Total Investment in Distribution Plant excluding NEP's capital leases in the Hydro-Quebec DC facilities (HQ leases). NEP's investment in PTF transmission plant and step-down transformers beyond NEP's Point of Delivery, including associated equipment, shall be included but stated separately. NEP's investment in wholesale



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FERC Electric Tariff No. 3, Section II  
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Schedule 21 – NEP

First Revised Sheet No. 3118  
Superseding Original Sheet No. 3118

metering, including associated equipment, shall also be included but stated separately.

- (b) Transmission-Related General Plant shall equal NEP's balance of investment in General Plant excluding General Plant related to NEP's generation facilities as specifically identified in NEP's CTC.
- (c) Transmission Plant Held for Future Use shall equal the balance of investment in FERC Account 105.
- (d) Transmission-Related Construction Work In Progress shall equal the portion of NEP's investment in Transmission-related projects as recorded in FERC Account 107 consistent with Commission orders.
- (e) Transmission-Related Depreciation Reserve shall equal the balance of Total Depreciation Reserve, excluding any generation-related depreciation reserve associated with assets identified in NEP's CTC.
- (f) Transmission-Related Accumulated Deferred Taxes shall equal NEP's balance of Total Accumulated Deferred Income Taxes, excluding any Accumulated Deferred Taxes associated with non-utility assets or generation facilities as identified in the CTC.
- (g) Transmission-Related Loss on Reacquired Debt shall equal NEP's balance of Total Loss on Reacquired Debt excluding losses associated with NEP Generation as specifically identified in the CTC, or any generation-related losses associated with pollution control bonds.
- (h) Other Regulatory Assets shall equal NEP's balance of FAS 109 excluding FAS 109 balances associated with NEP Generation as specifically identified in the CTC.
- (i) AFUDC Regulatory Liability shall equal the unamortized balance of the capitalized AFUDC booked on NEP's Transmission-related projects as recorded in FERC Account 254 consistent with Commission orders.

ISO New England Inc.  
FERC Electric Tariff No. 3, Section 11  
Open Access Transmission Tariff  
Schedule 21 – NEP

Original Sheet No. 3118A

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- (j) Transmission Prepayments shall equal NEP's balance of prepayments excluding any prepayments related to NEP's ongoing generation-related activities.
  - (k) Transmission Materials and Supplies shall equal NEP's balance of Transmission-related Materials and Supplies.
  - (l) Transmission-Related Cash Working Capital shall be a 12.5% allowance (45 days/360 days) of Transmission Operation and

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Issued by: Masheed Saidi  
President, New England Power Company  
Issued on: September 17, 2008

Effective: November 18, 2008

ISO New England Inc.  
FERC Electric Tariff No. 3, Section II  
Open Access Transmission Tariff  
Schedule 21 – NEP

First Revised Sheet No. 3119  
Superseding Original Sheet No. 3119

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Maintenance Expense and Transmission-Related Administrative  
and General Expense.

2. Cost of Capital Rate

The Cost of Capital Rate will equal (a) NEP's Weighted Cost of Capital, plus (b) the Yankee Adjustments plus (c) Federal Income Tax plus (d) State Income Tax.

- (a) The Weighted Cost of Capital will be calculated based upon the capital structure at the end of each month and will equal the sum of:
- (i) the long-term debt component, which equals the product of the actual weighted average embedded cost to maturity of NEP's long-term debt excluding any debt associated with pollution control bonds then outstanding and the ratio that long-term debt is to NEP's total capital less the end-of-year investment in Yankee Units.
  - (ii) the preferred stock component, which equals the product of the actual weighted average embedded cost to maturity of NEP's preferred stock then outstanding and the ratio that preferred stock is to NEP's total capital less the end-of-year investment in Yankee Units.
  - (iii) the return on equity component (ROE), which equals the product of the allowed based ROE of 10.9% and the ratio that common equity is to NEP's total capital less the end-of-year investment in Yankee Units.

For purposes of implementing the exclusion of the FERC-approved adders from Section J. below, the following ROEs will be applied to the corresponding investment:

post-2003 PTF transmission plant investment in Regional System Plan approved by ISO-NE	12.4%
remaining PTF transmission plant investment	11.4%
remaining transmission plant investment	10.9%

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Issued by: Janet Gail Besser  
V.P. New England Power Company

Effective: November 1, 2006

Issued on: December 21, 2006

Filed to comply with Opinion and Order of the Federal Energy Regulatory Commission, Docket No. ER04-157-004, issued October 31, 2006, 117 FERC ¶ 61,129.

ISO New England Inc.  
FERC Electric Tariff No. 3, Section II  
Open Access Transmission Tariff  
Schedule 21 – NEP

Original Sheet No. 3119A

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- (b) The Yankee Adjustment shall be calculated in accordance with FERC Opinion Nos. 49 and 49(a) issued in NEP's R-10 rate case and FERC Opinion No. 158 issued in NEP's W-3 rate case.
- (c) Federal Income Tax shall equal
- $$\frac{A \times FT}{1 - FT}$$

Where FT is the Federal Income Tax Rate and A is the sum of the preferred stock component and the return on equity component, as

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First Revised Sheet No. 3120  
Superseding Original Sheet No. 3120

determined in Section (I)(A)(2)(a)(ii), and Section (I)(A)(2)(a)(iii) above.

$$(d) \quad \frac{\text{State Income Tax}}{(A + \text{Federal Income Tax}) \times ST} \\ 1 - ST$$

where ST is the State Income Tax Rate, A is the sum of the preferred stock component and the return on equity component determined in Section (I)(A)(2)(a)(ii) and Section (I)(A)(2)(a)(iii) above, and Federal Income Tax is the rate determined in Section (I)(A)(2)(c) above.

- B. Transmission Depreciation Expense shall equal the Depreciation Expense associated with the Transmission Plant, Transmission-Related General Plant and Transmission Plant Held for Future Use as described in Sections I.A.(a)(1), (b) and (c), less the amortization of AFUDC regulatory credit as recorded in FERC Account 407.4.
- C. Transmission-Related Amortization of Loss on Reacquired Debt shall equal NEP's Amortization of the balance on Loss on Reacquired Debt as defined in Section I.A.(1)(f).
- D. Transmission-Related Amortization of Investment Tax Credits shall equal NEP's Amortization of Investment Tax Credits, excluding any ITC credits specifically identified as generation-related in NEP's CTC.
- E. Transmission-Related Amortization of FAS 109 shall equal the Amortization of NEP's Balance of FAS 109, as identified in Section I.A.(1)(q) over a ten-year period beginning on the Divestiture Date of NEP's Generating Assets as defined in the CTC.
- F. Transmission-Related Municipal Tax Expense shall equal NEP's total municipal tax expense excluding specifically identified generation-related municipal taxes or payments in lieu of such generation-related municipal taxes.
- G. Transmission Operation and Maintenance Expense shall equal all expenses charged to FERC Account Numbers 560 through 598. Account Number 565, Transmission by Others, shall only include those expenses in support of facilities that are integrated with NEP's Transmission System or other transmission systems. Transmission Operation and Maintenance Expense shall include any expenses associated with transmission-related administrative services provided by

ISO New England Inc.  
FERC Electric Tariff No. 3, Section II  
Open Access Transmission Tariff  
Schedule 21 – NEP

First Revised Sheet No. 3121  
Superseding Original Sheet No. 3121

the ISO and the expenses associated with providing Transmission Customers with the Pre-1997 Revenue Credit as described in Attachment OCC to this Schedule.

- H. Transmission-Related Administrative and General Expenses shall equal NEP's Administrative and General Expenses, less Production-related Administrative and General Expense associated with joint-owned production units, plus Payroll Taxes,
- I. Transmission-Related Integrated Facilities Credit shall equal NEP's transmission payments to its New England Affiliates for use of the integrated transmission facilities of those New England Affiliates.
- J. Transmission Revenue Credit shall equal NEP's total transmission revenue, FERC Account Number 456, transmission-related sub-accounts of 447, and those revenues received from the ISO associated with the provision of transmission services under the OATT excluding the revenue received under the terms set forth in Section 24.2 of this Schedule, excluding any revenue received for the Hydro-Quebec DC facilities, excluding any revenue directly credited to Network Customers under Section 24.11 of this Schedule, excluding distribution revenues associated with expenses that have been excluded from NEP's Transmission Revenue Requirement, and excluding any incremental revenues associated with FERC-approved adders for RTO participation and new transmission investment. To the extent that NEP's transmission-related revenue under FERC Electric Tariff No. 1 is not reflected in the above-reference accounts on or after July 9, 1996, such revenue will be imputed under the formula set forth in the OATT and included in the Transmission Revenue Credit in accordance with the above specifications. Any Transmission Revenue Credit related to Section 24.1 of this Schedule shall be stated separately. Any revenue from the ISO associated with the provision of transmission service under the OATT, shall also be included but stated separately.
- K. Distribution-Related Integrated Facilities Credit shall be equal to the credit applied to the purchased power bill of Massachusetts Electric Company under NEP's Tariff No. 1 for use of its distribution facilities used in support of wholesale transactions.
- L. Billing Adjustments shall be plus or minus any billing adjustments from the prior transmission billing periods, including ISO adjustments. Billing adjustments shall include, but not be limited to, adjustments due to metering errors, corrections to any value included in this Attachment RR, or the Load Ratio Share. Such adjustments may be corrected prospectively. However, if the error is substantial,

Issued by: Masheed Saidi  
President, New England Power Company

Effective: April 15, 2008

Issued on: April 15, 2008

Filed to comply with order of the Federal Energy Regulatory Commission, Docket Nos. RM05-17-001, 002 and RM05-25-001, 002, issued December 28, 2007, Order No. 890-A, 121 FERC ¶ 61,297.

ISO New England Inc.  
FERC Electric Tariff No. 3, Section II  
Open Access Transmission Tariff  
Schedule 21 – NEP

Original Sheet No. 3122

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or substantially affects an individual Network or Transmission Customer, NEP reserves the right to credit and rebill customers for each affected billing month in which the error occurred.

- M. Reactive Power Expense shall be set at zero as of the Second Effective Date, as defined in the NEPOOL Agreement.
- N. Bad Debt Expense shall be the bad debt expense as reported in Account 904 related to transmission billing.
- O. Miscellaneous Provisions In the event that the FERC accounts listed above are renumbered, renamed, or otherwise modified, the above sections shall be deemed amended to incorporate such renumbered, renamed, modified or additional accounts.

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F – Annual Transmission Revenue Requirements

Original Sheet No. 6015

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## **ATTACHMENT F**

### **ANNUAL TRANSMISSION REVENUE REQUIREMENTS**

The Transmission Revenue Requirements for each PTO will reflect the PTO's costs with respect to Pool Supported PTF and the HTF, including costs attributable to those PTOs deemed to own or support PTF pursuant to Section II.49 of the Tariff. The Transmission Revenue Requirements will be an annual calculation based on the previous year's calendar data as shown, in the case of PTOs that are subject to the Commission's jurisdiction, in the PTO's FERC Form 1 report for that year; provided, however, that if a PTO is deemed to own or support PTF pursuant to Section II.49 of the Tariff, such PTO may include the costs as incurred by its Related Person for PTF facilities and Transmission Support Expenses as the basis for establishing its initial and subsequent Annual Transmission Revenue Requirements, only until such PTO has a full calendar year of cost data under its ownership. Such PTO's costs will be determined from FERC Form 1 data if available, or if not available, from other supporting data certified by an auditor of the PTO or Related Person, and in a format comparable to that used to report such costs in FERC Form 1. Such costs shall be based on actual data in lieu of allocated data if specifically identified in the Form 1 report in accordance with the following formula and Schedule 12:

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Issued by: Kathleen A. Carrigan,  
Senior Vice President and General Counsel  
Issued on: December 22, 2004  
DMEAST #9884705 v3H

Effective: With notice, on or after February 1, 2005



ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F – Annual Transmission Revenue Requirements

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Original Sheet No. 6016

I. The Transmission Revenue Requirement shall equal the sum of the PTO's (A) Return and Associated Income Taxes, (B) Transmission Depreciation Expense, (C) Transmission Related Amortization of Loss on Reacquired Debt, (D) Transmission Related Amortization of Investment Tax Credits, (E) Transmission Related Municipal Tax Expense, (F) Transmission Related Payroll Tax Expense, (G) Transmission Operation and Maintenance Expense, (H) Transmission Related Administrative and General Expense, (I) Transmission Related Integrated Facilities Charges, minus (J) Transmission Support Revenue, plus (K) Transmission Support Expense, plus (L) Transmission Related Expense from Generators, plus (M) Transmission Related Taxes and Fees Charge, minus (N) Revenue for Short-Term service under the OATT and (O) Transmission Rents Received from Electric Property.

The details for implementation of Attachment F, as well as the definitions of the terms used in the Attachment F formula, shall be established in accordance with the Attachment F Implementation Rule contained in this OATT. Any changes to that rule must be approved by the PTO Administrative Committee, and filed with the Commission.

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule

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Original Sheet No. 6017

## **ATTACHMENT F IMPLEMENTATION RULE**

This rule sets forth details with respect to the determination each year of the Transmission Revenue Requirements for each PTO. Such Transmission Revenue Requirements shall reflect the PTO's costs for Pool Transmission Facilities ("PTF") and the Highgate Transmission Facilities ("HTF"), including costs attributable to those PTOs deemed to own or support PTF pursuant to Section II.49 of the Tariff. The Transmission Revenue Requirements for each PTO will reflect the PTO's costs with respect to Pool Supported PTF and the HTF. The Transmission Revenue Requirements will be an annual calculation based on the previous year's calendar data as shown, in the case of PTOs which are subject to the Commission's jurisdiction, in the PTO's FERC Form 1 report for that year; provided, however, that if a PTO is deemed to own or support PTF, such PTO may include the costs as incurred by its Related Person for PTF facilities and Transmission Support Expenses as the basis for establishing its initial and subsequent Annual Transmission Revenue Requirements, only until such PTO has a full calendar year of cost data under its ownership. Such PTO's costs will be determined from FERC Form 1 data if available, or if not available, from other supporting data certified by an auditor of the PTO or Related Person, and in a format comparable to that used to report such costs in FERC Form 1. Such costs shall be based on actual data in lieu of allocated data if specifically identified in the Form 1 report in accordance with the following formula and Schedule 12. The HTF

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Issued by: Kathleen A. Carrigan,  
Senior Vice President and General Counsel  
Issued on: December 22, 2004  
DMEAST #9884705 v3H

Effective: With notice, on or after February 1, 2005

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule

Third Revised Sheet No. 6018  
Superseding Second Revised Sheet No. 6018

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Transmission Revenue Requirements shall be subject to the limitations of inclusion of such costs as set forth in Appendix B to this Attachment. The owners of the HTF, or their designated agent, will submit the annual HTF Transmission Revenue Requirements calculation based on the previous calendar year's cost data from their FERC Form 1 or equivalent information from their official books and records, as appropriate.

The Post-96 Transmission Revenue Requirement for each PTO that is based on data for calendar year 2004 or later shall include an Incremental Return and Associated Income Taxes on the PTO's PTF transmission plant investments included in the Regional System Plan and placed in-service on or after January 1, 2004 (such investments referred to herein as "Post-2003 PTF Investment"). The Incremental Return and Associated Income Taxes for Post-2003 PTF Investment shall incorporate an incentive ROE adder of 100 basis points for plant investment placed in service by December 31, 2008 or as otherwise permitted in Docket Nos. ER04-157, *et al.* for any projects included in the RSP, and shall incorporate any incentive ROE adder approved by the FERC under Order No. 679 for other plant investments. The data used in determining each PTO's Incremental Return and Associated Taxes for Post-2003 Investment shall be based on actual data in lieu of allocated data if specifically identified in the PTO's accounting records.

The Post-1996 Pool PTF Rate, as calculated pursuant to Schedule 9, shall include for each PTO a Forecasted Transmission Revenue Requirement calculated in accordance with Appendix C to this Attachment F Implementation Rule. Additionally, the Pre-1997 and

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Issued by: Calvin A. Bowie,  
Chair of the Participating TO Administrative Committee  
Issued on: April 23, 2008

Effective: November 1, 2006

Filed to comply with order of the Federal Energy Regulatory Commission, Docket No. ER04-157-004, issued March 24, 2008, 122 FERC 61,265 (2008).  
DMEAST #9884705 v3H

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule

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Original Sheet No. 6018A

Post-1996 Pool PTF Rates shall include an Annual True-up calculated in accordance with  
Appendix C to this Attachment F Implementation Rule.

The PTOs shall make an annual informational filing on or before July 31 of each year  
showing the Pool PTF Rate in effect for the period beginning June 1 of that year through May 31  
of the subsequent year. Further, the informational filing with respect to the determination of the

Pool PTF Rate will include a breakdown by PTO of the amount of the change in PTF and HTF investment during the prior year and the PTF and HTF retirements or additions causing such change to beginning and end-of-year PTF balances and HTF balances (although beginning-of-year PTF balances and HTF balances are not used in the formula itself), and any additions to PTF and HTF, retirements of PTF and HTF, and reclassifications of PTF and HTF during the year for each PTO. If there are any corrections made to the information reflected in the informational filing after it has been submitted, the PTOs will file corrections to the informational filing. At least forty-five days before the informational filing is made with the Commission, the PTOs shall make available to Transmission Customers and any other interested parties a draft of the proposed filing for review and comment prior to the filing by posting such draft on the ISO website. The filing of the information filing does not re-open the formula rate set forth below for review, but rather is contestable only with respect to the accuracy of the information contained in the informational filing.

The ISO shall have the discretion to conduct audits of such charges, with advisory Stakeholder input on the scope of audit, including on any agreed-upon procedures to be used by the auditor. In this provision, the term “agreed-upon procedures” shall have the meaning afforded to it by the American Institute of Certified Public Accountants.

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## I. DEFINITIONS

Capitalized terms not otherwise defined in Section II.1 of the OATT and as used in this rule have the following definitions:

### A. ALLOCATION FACTORS

1. Transmission Wages and Salaries Allocation Factor shall equal the ratio of Transmission-related direct wages and salaries including those of affiliated Companies to the PTO's total direct wages and salaries including those of the Affiliates' Companies and excluding administrative and general wages and salaries.
2. PTF/HTF Transmission Plant Allocation Factor shall equal the ratio of PTF/HTF Transmission Plant to Total Investment in Transmission Plant, excluding capital leases in the Phase I/II HVDC-TF (Phase I/II HVDC-TF Leases).
3. Plant Allocation Factor shall equal the ratio of the sum of Total Investment in Transmission Plant, excluding Phase I/II HVDC-TF Leases, and Transmission Related General Plant to Total Plant in service excluding Phase I/II HVDC-TF Leases.

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule

First Revised Sheet No. 6021  
Superseding Original Sheet No. 6021

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B. TERMS

Administrative and General Expense shall equal the PTO's expenses as recorded in FERC Account Nos. 920-935, excluding FERC Account Nos. 924, 928 and 930.1.

Amortization of Loss on Reacquired Debt shall equal the PTO's expenses as recorded in FERC Account No. 428.1.

Amortization of Investment Tax Credits shall equal the PTO's credits as recorded in FERC Account No. 411.4.

Depreciation Expense for Transmission Plant shall equal the PTO's transmission expenses as recorded in FERC Account No. 403.

General Plant shall equal the PTO's gross plant balance as recorded in FERC Account Nos. 389-399.

General Plant Depreciation Expense shall equal the PTO's general expenses as recorded in FERC Account No. 403.

General Plant Depreciation Reserve shall equal the PTO's general reserve balance as recorded in FERC Account No. 108.

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule

First Revised Sheet No. 6022  
Superseding Original Sheet No. 6022

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HTF Transmission Plant shall equal the PTO's balance of investment in the Highgate Transmission Facilities as recorded in FERC Account Nos. 350-359.

Other Regulatory Assets/Liabilities - FAS 106 shall equal the net of the PTO's FAS 106 balance as recorded in FERC Account 182.3 and any FAS 106 balance as recorded in the PTO's FERC Account No. 254.

Other Regulatory Assets/Liabilities - FAS 109 shall equal the net of the PTO's FAS 109 balance in FERC Account No. 182.3 and any FAS 109 balance as recorded in the PTO's FERC Account No. 254.

Payroll Taxes shall equal those payroll expenses as recorded in the PTO's FERC Account Nos. 408.1.

Phase I/II HVDC-TF Leases shall equal the PTO's balance in capital leases as recorded in FERC Account Nos. 350-359 and FERC Account Nos. 389-399.

Plant Held for Future Use shall equal the PTO's balance in FERC Account No. 105.



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Prepayments shall equal the PTO's prepayment balance as recorded in FERC Account No. 165.

Property Insurance shall equal the PTO's expenses as recorded in FERC Account No. 924.

PTF Transmission Plant shall equal the PTO's transmission plant as defined in the Section II.49 of the OATT and determined in accordance with Appendix A of this Rule, which is entitled "Rules for Determining Investment To be Included in PTF."

PTF/HTF Transmission Plant Investment shall equal the PTO's (a) PTF Transmission Plant plus (b) HTF Transmission Plant.

Total Accumulated Deferred Income Taxes shall equal the net of the PTO's deferred tax balance as recorded in FERC Account Nos. 281-283 and the PTO's deferred tax balance as recorded in FERC Account No. 190.

Total Loss on Reacquired Debt shall equal the PTO's expenses as recorded in FERC Account 189.

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Total Municipal Tax Expense shall equal the PTO's municipal tax expenses as recorded in FERC Account Nos. 408.1.

Total Plant in Service shall equal the PTO's total gross plant balance as recorded in FERC Account Nos. 301-399.

Total Transmission Depreciation Reserve shall equal the PTO's transmission reserve balance as recorded in FERC Account 108.

Transmission Operation and Maintenance Expense shall equal the PTO's expenses as recorded in FERC Account Nos. 560, 561.5-561.8, 562-564 and 566-573, and shall exclude all Phase I/II HVDC-TF expenses booked to accounts 560 through 573 and expenses already included in Transmission Support Expense, as described in Section K which are included in FERC Account Nos. 560-573.

Transmission Plant shall equal the PTO's Gross Plant balance as recorded in FERC Account Nos. 350-359.

Transmission Plant Materials and Supplies shall equal the PTO's balance as assigned to transmission, as recorded in FERC Account No. 154.

## **II. CALCULATION OF TRANSMISSION REVENUE REQUIREMENTS**

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1st Rev Sheet No. 6025  
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The Transmission Revenue Requirement shall equal the sum of the PTO's (A) Return and Associated Income Taxes (including the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment), (B) Transmission Depreciation Expense, (C) Transmission Related Amortization of Loss on Reacquired Debt, (D) Transmission Related Amortization of Investment Tax Credits, (E) Transmission Related Municipal Tax Expense, (F) Transmission Related Payroll Tax Expense, (G) Transmission Operation and Maintenance Expense, (H) Transmission Related Administrative and General Expenses, (I) Transmission Related Integrated Facilities Charges, minus (J) Transmission Support Revenue, plus (K) Transmission Support Expense, plus (L) Transmission-Related Expense from Generators, plus (M) Transmission Related Taxes and Fees Charge, minus (N) Revenue for Short-Term service under the OATT, (O) Transmission Rents Received from Electric Property and (P) Transmission Revenues from MEPCO Grandfathered Transmission Service Agreements. The Incremental Return and Associated Income Taxes for Post-2003 PTF Investment for each PTO shall be calculated using the investment base components specifically identified in Section A.1 of the formula below.

- A. Return and Associated Income Taxes shall equal the product of the Transmission Investment Base and the Cost of Capital Rate. To calculate the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment,

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Transmission Investment Base will only includes Sections II.A.1.(a), (d), and (e),  
in the manner indicated.

1. Transmission Investment Base

The Transmission Investment Base will be the year end balances of (a)  
PTF/HTF Transmission Plant, plus (b) Transmission Related General  
Plant, plus (c) Transmission Plant Held for Future Use, less (d)  
Transmission Related Depreciation Reserve, less (e) Transmission Related  
Accumulated Deferred Taxes, plus (f) Transmission Related Loss on  
Reacquired Debt, plus (g) Other Regulatory Assets/Liabilities, plus (h)  
Transmission Prepayments, plus (i) Transmission Materials and Supplies,  
plus (j) Transmission Related Cash Working Capital.

(a) PTF Transmission Plant will equal the balance of the PTO's PTF  
Investment in (a) Transmission Plant plus (b) HTF Transmission  
Plant. This value excludes (i) the PTO's Phase I/II HVDC-TF  
Leases, (ii) the portion of any facilities, the cost of which is  
directly assigned under Schedule 11 to the OATT, to the  
Transmission Customer or a Generator Owner or Interconnection

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Requester, (iii) the Pre-1997 PTF gross plant investment associated with leased facilities occupied by the Phase II section of the Phase I/II HVDC-TF. In order to calculate the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment, Post-2003 PTF Transmission Plant shall be separately identified.

- (b) Transmission Related General Plant shall equal the PTO's balance of investment in General Plant multiplied by the Transmission Wages and Salaries Allocation Factor and the PTF/HTF Transmission Plant Allocation Factor.
- (c) Transmission Plant Held for Future Use shall equal the PTO's balance of Transmission-related Plant Held for Future Use multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- (d) Transmission Related Depreciation Reserve shall equal the PTO's balance of Total Transmission Depreciation Reserve, plus the balance of Transmission Related General Plant Depreciation Reserve. Transmission Related General Plant Depreciation Reserve shall equal the product of the General Plant Depreciation

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Reserve and the Transmission Wages and Salaries Allocation Factor. This sum shall be multiplied by the PTF/HTF Transmission Plant Allocation Factor. In order to calculate the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment, Transmission Depreciation Reserve associated with Post-2003 PTF Investment shall equal the PTO's balance of Total Transmission Depreciation Reserve multiplied by the ratio of Post-2003 PTF Transmission Plant to Total Investment in Transmission Plant, excluding capital leases in the Phase I/II HVDC-TF Leases.

- (e) Transmission Related Accumulated Deferred Taxes shall equal the PTO's electric balance of Total Accumulated Deferred Income Taxes, multiplied by the Plant Allocation Factor, further multiplied by the PTF/HTF Transmission Plant Allocation Factor. To calculate the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment, Transmission Related Accumulated Deferred Income Taxes associated with Post-2003 PTF Investment shall equal the PTO's balance of total property-related

accumulated deferred income taxes as recorded in FERC accounts 281 and 282, multiplied by the ratio of Total Investment in Transmission Plant, excluding Phase I/II HVDC-TF Leases, to Total Plant in Service excluding Phase I/II HVDC-TF Leases, further multiplied by the ratio of Post-2003 PTF Transmission Plant to Total Investment in Transmission Plant, excluding Phase I/II HVDC-TF Leases.

- (f) Transmission Related Loss on Reacquired Debt shall equal the PTO's electric balance of Total Loss on Reacquired Debt multiplied by the Plant Allocation Factor, further multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- (g) Other Regulatory Assets/Liabilities shall equal the PTO's electric balance of any deferred rate recovery of FAS 106 expenses multiplied by the Transmission Wages and Salaries Allocation Factor, plus the PTO's electric balance of FAS 109 multiplied by the Plant Allocation Factor. This sum shall be multiplied by the PTF/HTF Transmission Plant Allocation Factor.

- (h) Transmission Prepayments shall equal the PTO's electric balance of prepayments multiplied by the Transmission Wages and Salaries Allocation Factor and further multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- (i) Transmission Materials and Supplies shall equal the PTO's electric balance of Transmission Plant Materials and Supplies, multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- (j) Transmission Related Cash Working Capital shall be a 12.5% allowance (45 days/360 days) of the PTO's Transmission Operation and Maintenance Expense, Transmission Related Administrative and General Expense and Transmission Support Expense, to the extent that Transmission Support Expense exceeds Transmission Support Revenue included in Paragraph J of the formula.

2. Cost of Capital Rate

The Cost of Capital Rate will equal (a) the PTO's Weighted Cost of Capital, plus (b) Federal Income Tax plus (c) State Income Tax.



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- (a) The Weighted Cost of Capital will be calculated based upon the capital structure at the end of each year and will equal the sum of (i), (ii), and (iii) below. The Cost of Capital Rate to be used in calculating the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment, shall only reflect item (iii) below and shall apply in the manner indicated below.
- (i) the long-term debt component, which equals the product of the actual weighted average embedded cost to maturity of the PTO's long-term debt then outstanding and the ratio that long-term debt is to the PTO's total capital.
- (ii) the preferred stock component, which equals the product of the actual weighted average embedded cost to maturity of the PTO's preferred stock then outstanding and the ratio that preferred stock is to the PTO's total capital.
- (iii) the return on equity component, shall be the product of the allowed ROE of the PTO's common equity and the ratio that common equity is to the PTO's total capital. For pre-1997 and post-1996

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assets, the ROE is 11.64%. In order to calculate the Incremental Return and Associated Income Taxes for Post-2003 PTF Investment, the incremental return on equity shall be the product of: (1) the PTO's incremental return on equity of 1.0% for plant investments associated with projects included in the RSP and placed in service by December 31, 2008 or otherwise permitted in Docket Nos. ER04-157, *et al.*; (2) any ROE incentive approved by the FERC under Order No. 679 for other plant investments, and (3) the ratio that common equity is to the PTO's total capital.<sup>1</sup>

(b) Federal Income Tax shall equal

$$\frac{(A+[(C+B)/D])(FT)}{1 - FT}$$

where FT is the Federal Income Tax Rate and A is the sum of the preferred stock component and the return on equity component, as determined in Sections II.A.2.(a)(ii) and (iii) above, B is Transmission Related Amortization of Investment Tax Credits, as determined in Section II.D., below, C is the Equity AFUDC component of Transmission Depreciation Expense, as defined in Section II.B., and D is Transmission Investment Base, as

<sup>1</sup>FERC Form-730 contains a list of transmission projects for which FERC has granted incentives under Order No. 679.

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determined in Section II.A.1., above. In order to calculate the  
Incremental Return and Associated Income Taxes for Post-2003  
PTF Investment, the incremental Federal Income Tax shall equal  
$$\frac{(A' * FT)}{(1 - FT)}$$

where FT is the Federal Income Tax Rate and A' is the incremental  
return on equity component, as determined in Section II.A.2.(a)(iii)  
above.

(c) State Income Tax shall equal

$$\frac{(A + [(C + B)/D] + \text{Federal Income Tax})(ST)}{1 - ST}$$

where ST is the State Income Tax Rate, A is the sum of the  
preferred stock component and return on equity component  
determined in Sections II.A.2.(a)(ii) and (iii) above, B is the  
Amortization of Investment Tax Credits as determined in Section  
II.D. below, C is the equity AFUDC component of Transmission  
Depreciation Expense, as defined in Section II.B., D is the  
Transmission Investment Base, as determined in II.A.1., above and  
Federal Income Tax is the rate determined in Section II.A.2.(b)  
above. In order to calculate the Incremental Return and Associated  
Income Taxes for Post-2003 PTF Investment, the incremental State  
Income Tax shall equal

$$\frac{(A' + \text{Federal Income Tax})(ST)}{(1 - ST)}$$

where ST is the State Income Tax Rate, A' is the incremental return on equity component determined in Section II.A.2.(a)(iii) above, and Federal Income Tax is the rate determined in Section II.A.2.(b) above.

- B. Transmission Depreciation Expense shall equal the PTF/HTF Transmission Plant Allocation Factor, multiplied by the sum of the PTO's Depreciation Expense for Transmission Plant, plus an allocation of General Plant Depreciation Expense calculated by multiplying General Plant Depreciation Expense by the Transmission Wages and Salaries Allocation Factor.
- C. Transmission Related Amortization of Loss on Reacquired Debt shall equal the PTO's electric Amortization of Loss on Reacquired Debt multiplied by the Plant Allocation Factor, and further multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- D. Transmission Related Amortization of Investment Tax Credits shall equal the PTO's electric Amortization of Investment Tax Credits multiplied by the Plant

Allocation Factor, and further multiplied by the PTF/HTF Transmission Plant Allocation Factor.

- E. Transmission Related Municipal Tax Expense shall equal the PTO's total electric municipal tax expense multiplied by the Plant Allocation Factor, and further multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- F. Transmission Related Payroll Tax Expense shall equal the PTO's total electric payroll tax expense, multiplied by the Transmission Wages and Salaries Allocation Factor, further multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- G. Transmission Operation and Maintenance Expense shall equal the PTO's Transmission Operation and Maintenance Expenses multiplied by the PTF/HTF Transmission Plant Allocation Factor.
- H. Transmission Related Administrative and General Expenses shall equal the sum of the PTO's (1) Administrative and General Expenses multiplied by the Transmission Wages and Salaries Allocation Factor, (2) Property Insurance multiplied by the Transmission Plant Allocation Factor, and (3) Expenses included in Account 928 related to FERC Assessments multiplied by Plant

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Allocation Factor, plus any other Federal and State transmission related expenses or assessments, plus specific transmission related expenses included in Account 930.1. This sum shall be multiplied by the PTF/HTF Transmission Plant Allocation Factor.

- I. Transmission Related Integrated Facilities Charges shall equal the PTO's transmission payments to Affiliates for use of the PTF and HTF integrated transmission facilities of those Affiliates.
- J. Transmission Support Revenues shall equal the PTO's revenue received for PTF and HTF transmission support but excluding the support payments to PTOs or their designee pursuant to Schedule 11 and excluding the support payments to PTOs or their designee pursuant to Schedule 12 Part 1(a) and Part B.2, and excluding support payments, if any, made to PTOs or their respective designee pursuant to Part II.C of this OATT.
- K. Transmission Support Expense shall equal the expense paid by (1) PTOs, (2) Transmission Customers or (3) Related Persons pursuant to Section II.49 of the Tariff for PTF and HTF transmission support other than expenses for payments made for congestion rights or for transmission facilities or facility upgrades

placed in service on or after January 1, 1997, where the support obligation is required to be borne by particular PTOs or other entities in accordance with the OATT. Transmission Support Expenses by any entity other than a PTO, included in this provision, shall be capped at that entity's annual payment for Regional Network Service or its Point To Point Service for each individual Point To Point transaction from the resource with which the support payment is associated.

- L. Transmission-Related Expense from Generators shall equal the expenses from generators that both (1) the PTO Administrative Committee determines should be included as transmission expense as a result of the impact of such generators on reducing transmission costs that would otherwise be required to be paid by Transmission Customers and (2) are reflected in a filing made by the PTOs with the Commission under Section 205 of the Federal Power Act and accepted by the Commission for recovery under the OATT.
- M. Transmission Related Taxes and Fees Charge shall include any fee or assessment imposed by any governmental authority on service provided under this Section which is not specifically identified under any other section of this rule.

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- N. Revenues for Short-Term service under the OATT shall be revenues distributed to each PTO for short term service provided under the OATT, received after March 1, 1999. These revenues will be credited pro-rata between pre-1997 and post-1996 PTF revenue requirements in proportion to pre-1997 and post-1996 PTF Transmission Plant.
- O. Transmission Rents Received from Electric Property shall equal any Account 454 Rents from electric property, associated with PTF and HTF Transmission Plant as defined in Section II.A.1.(a) above but not reflected as a credit in Transmission Support Revenues in paragraph K of this Attachment.
- P. Transmission Revenues from MGTSA's shall equal any MGTSA revenues recorded in Account 456.



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in PTF

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Original Sheet No. 6039

**APPENDIX A TO ATTACHMENT F IMPLEMENTATION RULE  
RULES FOR DETERMINING INVESTMENT TO BE INCLUDED IN PTF**

Section A – Transmission Lines\*

Section B – Terminal Facilities\*

Section C – Right of Way\*

Effective June 1, 1998

\*The following provision shall apply to Sections A, B and C below:

Of those transmission facilities that are upgrades, modifications or additions to the New England Transmission System on and after January 1, 2004, only those that: (i) are rated 115kV or above, and (ii) otherwise meet the non-voltage criteria specified in Section II.49 of this OATT shall be classified as PTF. Those transmission facilities that were PTF on December 31, 2003, and any upgrades to such facilities that meet the definition of PTF specified in this OATT, shall remain classified as PTF for all purposes under the Transmission, Markets and Services Tariff.

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Issued by: Kathleen A. Carrigan,  
Senior Vice President and General Counsel

Issued on: December 22, 2004  
DMEAST #9884705 v3H

Effective: With notice, on or after February 1, 2005

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Original Sheet No. 6040

## **Section A: Rules for Determining Transmission Line Investment to be Included in PTF**

Pool Transmission Facilities (PTF) are the transmission facilities owned by PTO rated 69 kV or above required to allow energy from significant power sources to move freely on the New England transmission network, and include:

1. All transmission lines and associated facilities owned by the PTOs rated 69 kV and above, except:
  - a. those which are required to serve local load only, thereby contributing little or no parallel capability to the transmission network,
  - b. generator leads, which are defined as the radial transmission from a generator bus to the nearest point on the transmission network,
  - c. lines that are normally operated open.
  - d. those that are classified as MTF.
2. Terminal facilities (including substation facilities such as transformers, circuit breakers, and associated equipment) required to interconnect the lines which constitute PTF (see Section B).

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3. If a PTO with significant generation in its system (initially 25 MW) is connected to the New England Transmission System and none of the transmission facilities owned by the PTO qualify to be included in PTF as defined in “1” and “2” above, then such PTO’s connection to PTF will constitute PTF if both of the following requirements are met for this connection:

- a. The connection is rated 69 kV or above.
- b. The connection is the principal transmission link between the PTO and the remainder of the ISO PTF network.

The PTF facilities covered by this provision shall consist of a single line from the point of connection on the transmission network to the first bus within the PTO’s system.

4. R/W and land required for the installation of PTF facilities listed in “1”, “2”, or “3” (see Section C).

The following examples indicate the intent of the above definitions:

- a. Radial tap lines to local load are excluded.

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- b. Lines which loop, from two geographically separate points on the transmission network, the supply to the load bus from the transmission network are included.
- c. Lines which loop, from two geographically separate points on the transmission network, the connections between a generator bus, and the transmission network are included.
- d. Radial connection or connections from a generating station to a single substation or switching station on the transmission network are excluded unless the requirements of paragraph 3 above are met.
- e. The cost of a PTF line will include only those costs associated with that line.  
When other facilities require rebuilding or undergrounding to permit the construction of a PTF facility, the investment costs in the relocated or undergrounded facility will not be included.
- f. Where multiple circuit structures support a mixture of PTF and Non-PTF circuits, the total cost of the multiple circuit structures will be allocated between the circuits in accordance with the ratio of costs of comparable individual structures.

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The PTOs shall 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 catalog of PTF facilities.

All new facilities being installed should be properly classified at the time the facilities are approved under Section I.3.9 of the Transmission, Markets and Services Tariff.

Transmission facilities owned or supported by a Related Person of a PTO which are rated 69 kV or above and are required to allow Energy from significant power sources to move freely on the New England Transmission System shall also constitute PTF provided (i) such Related Person files with the ISO its consent to such treatment; and (ii) the ISO determines in consultation with the PTO Administrative Committee determines that treatment of the facility as PTF will facilitate accomplishment of the ISO's objectives. If such facilities constitute PTF pursuant to this paragraph, they shall be treated as "owned" or "supported," as applicable, by a PTO for purposes of the OATT and the other provisions of the TOA, including the ability to include the cost associated with such PTF and any Transmission Support Expenses for support of PTF made by its Related Person in that PTO's Annual Transmission Revenue Requirements pursuant to Attachment F of the OATT.

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## **Section B: Rules for Determining Terminal Investment to be Included in PTF**

Terminal Investment is investment associated with the terminal facilities of electrical lines, including substation facilities such as transformers, circuit breakers, disconnects and airbreaks, bus conductor, related protection equipment and other related facilities (see paragraph 7).

1. The investment in terminal facilities shall be included where these facilities are identifiable and serve directly for terminating and/or switching PTF lines.
2. In cases where a line terminal is used in conjunction with both PTF and Non-PTF lines and/or facilities, it will be considered a PTF facility providing the terminal facility is at 69 kV or above and carries any power flow at 69 kV or above through parallel paths within the interconnected network under normal operation. PTF equipment is any element of the transmission system in those parallel paths. Any equipment not in these parallel paths is Non-PTF.
3. Where line terminals are installed solely for Non-PTF facilities, and do not carry any power flow at 69 kV or above through parallel paths within the interconnected network under normal operation, such terminal cost shall not be included in PTF.

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4. A two-winding transformer which connects PTF facilities at both terminals along with any switcher which can be identified as pertaining solely to the transformer, will be included in their entirety as PTF.
5. An autotransformer or three winding transformer which connects PTF facilities at two (2) or more terminals, along with any switchgear which can be identified as pertaining solely to the PTF-connected terminals of the transformer, will be included in their entirety as PTF. An autotransformer or three winding transformer which is connected to PTF at only one terminal will not be PTF.
6. When a transformer supplies only Non-PTF facilities, the entire transformer installation, including the high side disconnect switch or circuit breaker and associated structures or tap lines shall be excluded from PTF except for the portion of line terminal facilities covered by paragraph 2.
7. Other facilities – the investment in that portion of a multi-use substation or switching station which is identifiable as serving a PTF function shall be included in PTF, while the investment in such facilities which are identifiable as serving a Non-PTF function shall be excluded. The investment in land, structures, ground mats, fences, ducts, lighting, etc., can often be identified and thus allocated. The

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investment in other facilities in the substation or switching station, excluding transformers, which are not identifiable as serving either a PTF or a Non-PTF function and general overheads shall be allocated to PTF on the basis of the ratio of the investment in those facilities identified as PTF to the sum of the investments in the facilities which are identified as serving PTF and Non-PTF functions; the equipment cost of power transformers shall not be included in this calculation for determining the division of investment, since this would produce a distorted balance.

8. Alternate method of allocating the cost of terminal facilities – In those cases where the major portion of the investment has been lumped and utility plant records do not permit the accurate assignment of costs to specific terminals, the total investment may be prorated to PTF and Non-PTF according to the number of terminals serving PTF and Non-PTF facilities.
9. In cases where microwave facilities are used in whole or part for PTF purposes, a prorated portion of such investment shall be included in PTF based on the PTF and Non-PTF functions served by the microwave facilities except where these



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facilities are otherwise supported under the Microwave Sharing Agreement dated June 1, 1970 among some of the New England utilities.

10. Generator unit transformers and generator circuit breakers shall be excluded from PTF, unless otherwise included by paragraphs 1 or 5.
11. In cases where remote control (Supervisory Control) and telemetering facilities are used in whole or in part for PTF purposes, a prorated portion of such investment shall be included in PTF based on the PTF and Non-PTF functions served by these facilities.
12. The PTO Administrative Committee may designate appropriate facilities as PTF.

#### **Section C: Rules for Determining PTF R/W Costs**

1. If a R/W has only PTF lines and no Non-PTF lines are expected to be added, the entire cost of the R/W is to be included as PTF.
2. If the R/W has only PTF lines but includes additional unused R/W which was purchased for future use by Non-PTF lines, the cost of the additional R/W is not to be included as PTF.

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3. If the R/W contains both PTF and Non-PTF lines, the R/W cost to be assigned to PTF is to be determined as follows:
  - a. Where new or additional R/W is required to permit the construction of PTF line(s) and the added R/W is adequate to contain the new PTF, the cost of the new R/W is to be assigned to the PTF line(s), (even if the PTF line is located on the old R/W).
  - b. Where an existing R/W is used (without additional R/W), the amount allocated to PTF will be determined in accordance with paragraph 4.
  - c. Where a R/W is widened, but the new facilities, either PTF or Non-PTF, require partial use of the existing R/W, the incremental cost of the new R/W will be assigned to the new facilities. The width of the original R/W will be added to the width of the new R/W and the combined width will be allocated between PTF and Non-PTF as in paragraph 4. The cost of the old R/W and the combined width will be allocated between PTF and Non-PTF as in paragraph 4. The cost of the old R/W will be allocated to the new facilities in proportion to the width of the old R/W assigned to the

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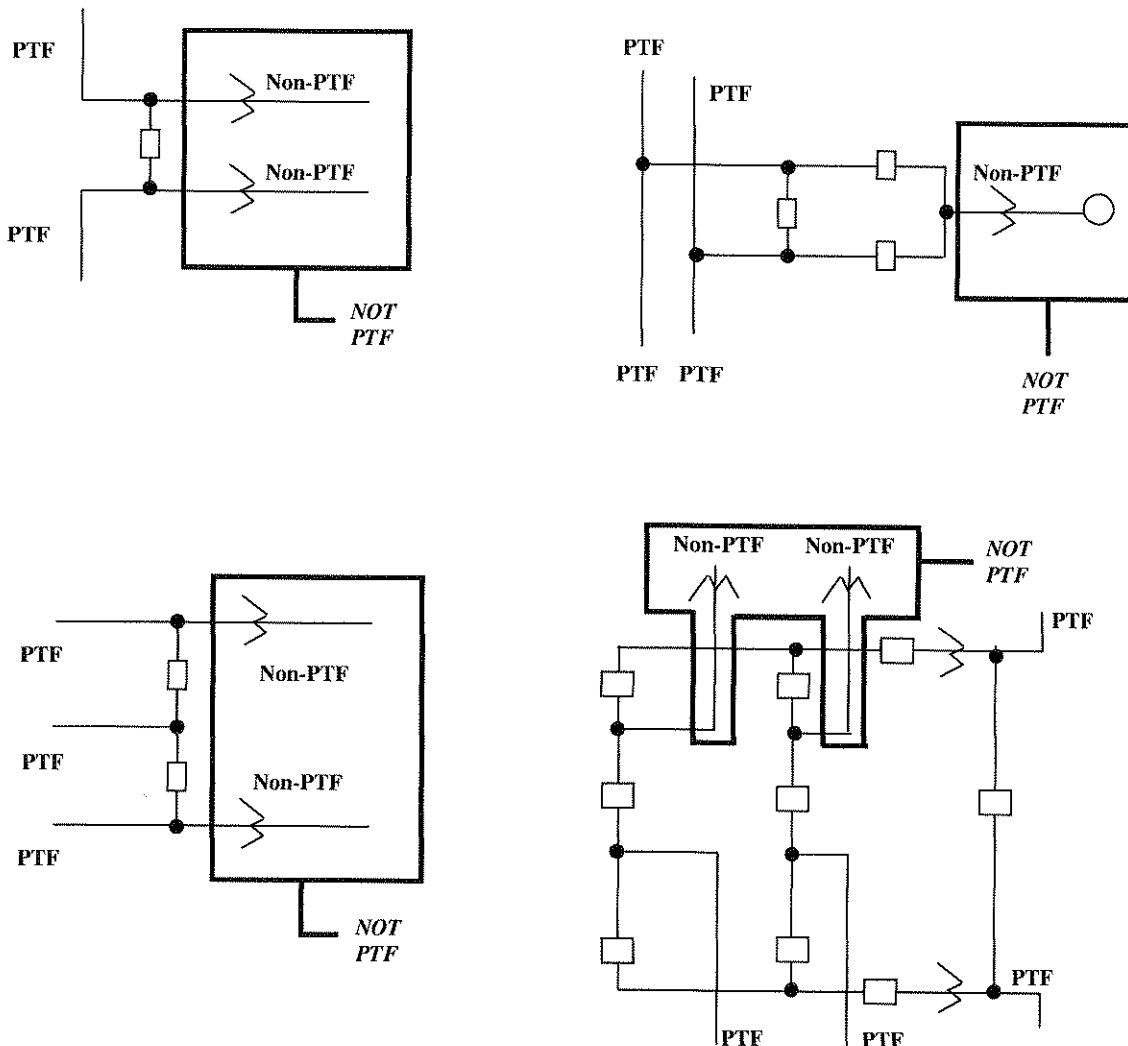
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new facilities. Thus, the R/W for the new facilities will be the additional R/W plus a share of the old R/W.

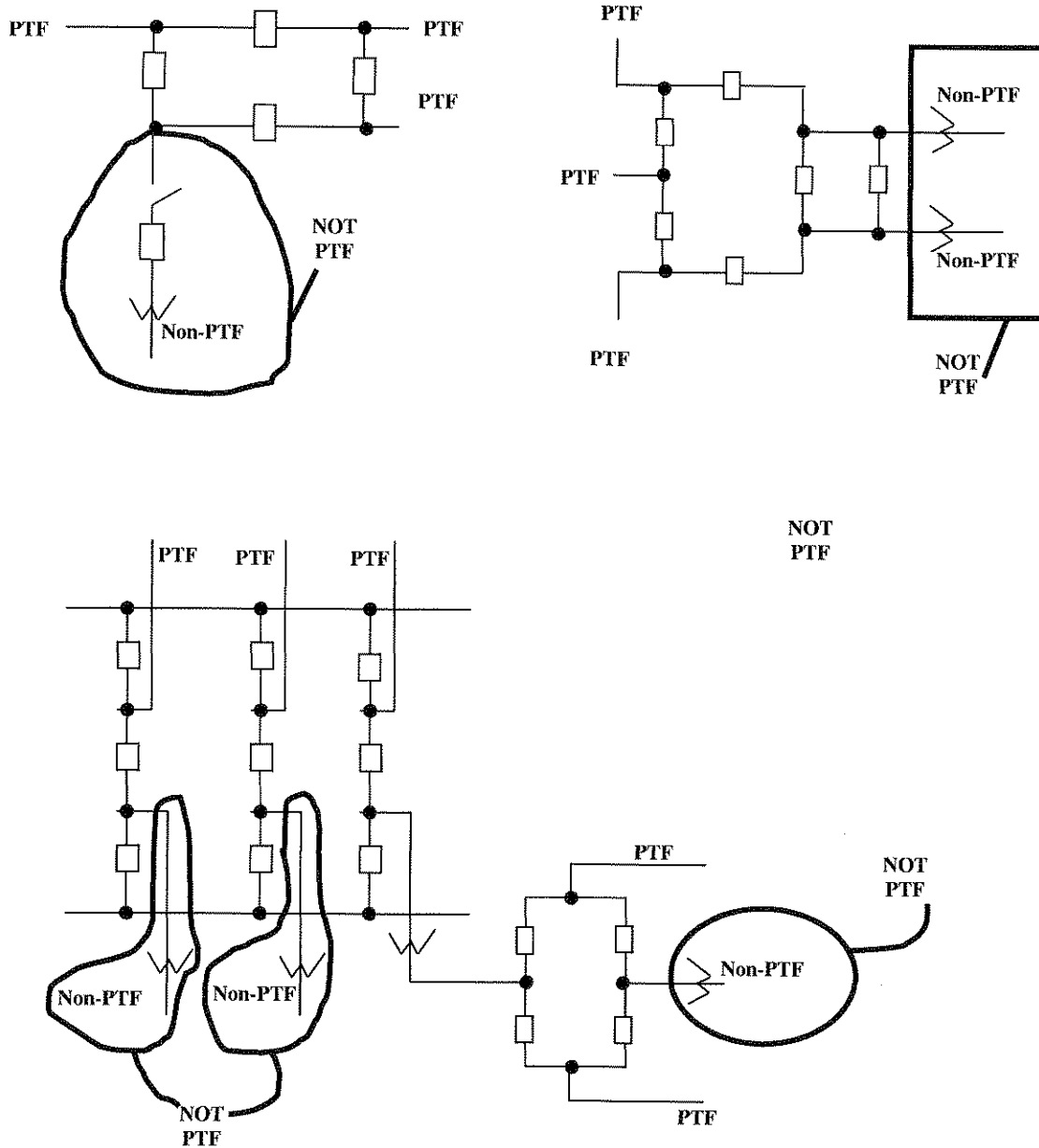
4. In allocating R/W between PTF and Non-PTF lines, each shall bear a share of the R/W in accordance with the following formulae.
  - a. Determine the R/W width required for each facility if constructed independently using appropriate type structures.
  - b. Allocate the actual R/W width to each facility in the proportion its independent R/W requirement would be to the sum of the independent R/W requirements.
5. R/W and land held for future PTF facilities may be included in PTF facilities only if specifically approved by the PTO Administrative Committee included under paragraph 1.

## ATTACHMENT 1 TO APPENDIX A TO ATTACHMENT F IMPLEMENTATION RULE

### Examples of the Methods for Distinguishing PTF from Non-PTF Terminal Facilities in a Number of Typical Substation Configurations



ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule – Appendix A – Attachment 1

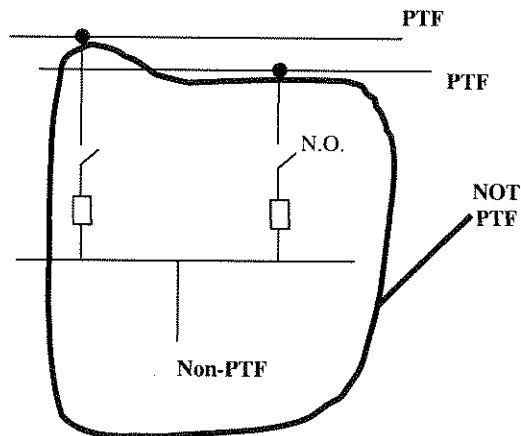
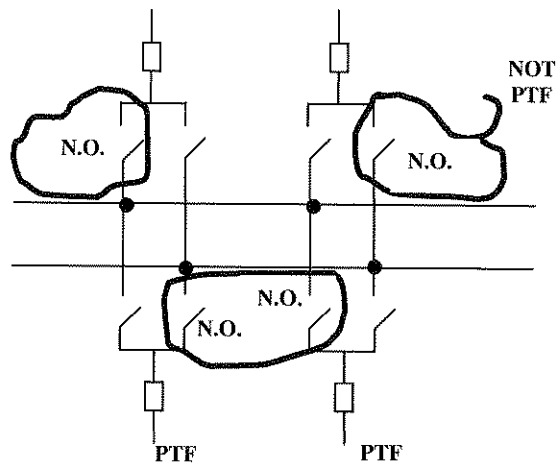


Issued by: Kathleen A. Carrigan,  
Senior Vice President and General Counsel  
Issued on: December 22, 2004  
DMEAST #9884705 v3H

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ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule – Appendix A – Attachment I

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**APPENDIX B TO ATTACHMENT F IMPLEMENTATION RULE**  
**HTF TRANSITION SCHEDULE**

The inclusion of HTF Annual Transmission Revenue Requirements in Attachment F (and the calculation of the Pool PTF Rate) to this OATT will be limited by the provisions of this schedule.

VELCO, as a PTO and acting as agent for the HTF owners, may include the HTF Annual Transmission revenue Requirements (i.e., HTF Transmission Plant) within the Attachment F calculations. Additionally, the total HTF Annual Transmission Revenue Requirements included shall be limited to the following:

- Year 1: A maximum of \$1.2M in Year 1. For the sole purpose of this Schedule, “Year 1” shall be defined as the first full year after the Operations Date;
- Year 2: A maximum of \$2.0M in Year 2. For the sole purpose of this Schedule, “Year 2” shall be defined as the second full year after the Operations Date;
- Year 3: A maximum of \$2.8M in Year 3. For the sole purpose of this Schedule, “Year 3” shall be defined as the third full year after the Operations Date;
- Year 4: A maximum of \$3.5M in Year 4. For the sole purpose of this Schedule, “Year 4” shall be defined as the fourth full year after the Operations Date;
- and

ISO New England Inc.  
FERC Electric Tariff No. 3  
Open Access Transmission Tariff  
Section II – Attachment F Implementation Rule – Appendix B – HTF Transition Schedule

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Year 5 and thereafter: All HTF Annual Transmission Revenue Requirements shall be  
included in Attachment F.

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## ATTACHMENT F IMPLEMENTATION RULE

### APPENDIX C

#### I. DEFINITIONS

- (i) **Annual True-up – Pre-1997 (ATU):** shall be the difference between the actual Pre-1997 Annual Transmission Revenue Requirements and the as-billed Pre-1997 Annual Transmission Revenue Requirements, adjusted to include interest pursuant to Part II below. The actual Pre-1997 Annual Transmission Revenue Requirements shall be an after-the-fact calculation and shall be determined at the conclusion of each rate-effective period, i.e. June 1 through May 31 of each year, by application of the Attachment F formula rate and each PTO's relevant Pre-1997 PTF cost data for the most recently concluded calendar year. The as-billed Pre-1997 Annual Transmission Revenue Requirements shall be those Pre-1997 Annual Transmission Revenue Requirements used to establish the RNS rates that were made effective on June 1 of the most recently concluded calendar year.
- (ii) **Annual True-up – Post-1996 (ATU'):** shall be the difference between the actual Post-1996 Annual Transmission Revenue Requirements and the as-billed Post-1996 Annual Transmission Revenue Requirements, adjusted to include interest pursuant to Part II below. The actual Post-1996 Annual Transmission Revenue Requirements shall be an after-the-fact calculation and

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shall be determined at the conclusion of each rate-effective period, i.e. June 1 through May 31 of each year, by application of the Attachment F formula rate and each PTO's relevant Post-1996 PTF cost data for the most recently concluded calendar year. The as-billed Post-1996 Annual Transmission Revenue Requirements shall be those Post-1996 Annual Transmission Revenue Requirements used to establish the RNS rates that were made effective on June 1 of the most recently concluded calendar year and which included the sum of the Post-1996 Transmission Revenue Requirements for the year prior to the most recently concluded calendar year plus the Forecasted Transmission Revenue Requirements for the most recently concluded calendar year.

- (iii) **Forecast Period:** The calendar year immediately following the calendar year for which the most recent FERC Form 1 data is available.
- (iv) **Forecasted Transmission Plant Additions (FTPA):** shall equal an estimate of the PTO's Post-1996 PTF plant additions for the Forecast Period.
- (v) **Carrying Charge Factor (CCF):** shall reflect the most recent calendar year data used in determining Post-1996 Annual Transmission Revenue Requirements and shall equal the sum of Attachment F Sections II.A through II.H divided by Attachment F Section II.A.1.a.

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(vi) **Forecasted Transmission Revenue Requirement (FTRR)**: shall equal

FTP A multiplied by the CCF as shown:

$$FTRR = FTPA * CCF$$

## II. INTEREST ON ANNUAL TRUE-UPS

Interest on the Annual True-up amounts (i.e., interest applicable to any over or under collection) shall be calculated in accordance with the methodology specified in the Commission's regulations at 18 C.F.R. § 35.19a (a) (2) (iii).

## III. INFORMATIONAL FILINGS

The PTOs' annual informational filing shall include supporting documentation for their estimated capital additions to be placed in service during the current calendar year as well as supporting documentation pertaining to any annual true-up and interest calculations.