

MEMORANDUM

TO: TCC Settling Parties, TCC Audit Team **DATE:** September 16, 2005
FROM: NYISO Staff

Subject: TCC Settlement Audit Scope

This memorandum summarizes the NYISO's position regarding the scope of the audit to be performed pursuant to the settlement agreement that was filed with the Commission on July 13, 2004, regarding the NYISO-administered TCC auctions ("Settlement Agreement").

Article V of the Settlement Agreement establishes that all determinations made pursuant to the Settlement Agreement shall be verified by an independent auditor. As such, the scope of the audit ("Settlement Audit") includes the following:

1. Is the methodology for calculating payments described in the memoranda prepared for the auditors (the "Methodology Memos") consistent with the Settlement Agreement?
2. Do the formulas and spreadsheets created to carry out the settlement calculations correctly implement the methodology described in the Methodology Memos?
 - a. Are they consistent with the conceptual approach described in the Methodology Memos?
 - b. Do they contain formula errors?
 - c. Do they correctly pull data from the original auction worksheets?
 - d. Do they correctly pull data from sheet to sheet between tables of the settlement calculations?
3. In those instances in which the original auction worksheets for the six month and one year rounds were modified in order to carry out the settlement calculations, were those modifications made correctly and without introducing errors elsewhere in the original auction worksheets? Those modifications include:
 - a. Reducing net auction revenues to reflect the oversale.
 - b. Changing formulas in column X to account for possibility of negative ETCNL quantities.
 - c. Modifying Column I to pull ETCNL quantities from Table 4.
 - d. Modifying the Spring 2003 worksheets to implement the methodology used by the NYISO to scale payments to ETCNL holders in the Fall 2003 auction. (These

formulas changes were ultimately irrelevant when other corrections eliminated the apparent shortfalls in the Spring and Fall 2003 auctions.)

4. In those cases in which the settlement calculations are based on data not contained in the original auction worksheets, were those data correctly calculated? This data includes:
 - a. Amount of oversale – Appendix A. Source - NYISO.
 - b. Amount of infeasible TCCs by constraint - Tables 20/21. Source - NYISO OPF.
 - c. DAM constraint shadow prices - Table 21. Source - LECG calculation.
 - d. Amount of ETCNL proration - Table 4. Source - NYISO OPF (six-month rounds for all auctions, annual round for Fall 2003).
 - e. DAM congestion shortfall by month - Table 24. Source - NYISO.
 - f. Facility Flow Based ratio Spring 2004. Source - NYISO.

The NYISO proposes to provide Appendix A to the Transmission Owners to allow them to participate in validation of item a. Some of the above calculations are highly technical (b, c, d, and f), and it may not be possible to apply traditional audit methods. LECG will assist auditors in validating item c.

5. In those cases in which the settlement calculations acted to correct data contained in the original auction worksheets, were the corrections valid and correctly implemented? These corrections include:
 - a. Correction of ETCNL sources, sinks, and quantities.
 - i. NYSEG Gardenville to Zone F (Fall 02, Spring 03, Fall 03)
 - ii. Con Ed Bowline to Hellgate (Fall 03)
 - iii. Con Ed 6 month rounds (Fall 02)
 - iv. NYSEG Gilboa to Zone F (Spring 04)
 - v. MegaWatt ETCNL quantities should have been in whole MW (Spring 04)
 - vi. AES redirection adjustments (Fall 2003, Spring 2003, Fall 2002)
 - b. Correction of proportion of available capacity sold in annual rounds (Fall 2003).

The Transmission Owners may be best suited to confirm the validity of ETCNL corrections. They can review the errors in the original auction worksheets.

6. In those cases in which the settlement calculations have corrected formula errors in the original auction worksheets, were those corrections valid? These formula errors include:
 - a. Fall 2002, Spring 2003 error involving columns I, AB and AC.
 - b. Values of ETCNL originally taken from column Y (Fall 2002 and Spring 2003) or other locations (Fall 2003) were corrected to refer to values in column X (positive values).

- c. Residual TCC values originally set to zero were corrected to cell reference values in column X (Fall 2002).

The NYISO's original TCC calculations, as reflected in the original auction worksheets provided to the Transmission Owners, are outside the scope of the Settlement Audit. The Settlement Audit is limited to calculations specific to the Settlement Agreement. As such, the formula and data used in the original auction worksheets that are unrelated to the oversale and were not affected in the settlement calculations are outside the scope of the Settlement Audit. This includes:

- a. TCC auction prices
- b. ETCNL quantities
- c. TCC auction quantities
- d. Consistency of auction worksheet values with the actual payments to the Transmission Owners
- e. Calculation of the N-13 weights based on the correct reconfiguration auction revenues

Similarly, whether the formulas and methodologies reflected in the NYISO's original auction worksheets correctly implemented the NYISO tariffs under the circumstances present during the period addressed by the Settlement Agreement are outside the scope of the Settlement Audit. This includes:

- f. Whether the NYISO used the correct methodology to prorate ETCNL
- g. Whether the NYISO used the correct methodology to unbundle zonal ETCNL for the purpose of prorationing
- h. Whether the NYISO used the correct methodology to account for AES redirect rights
- i. Whether the NYISO correctly calculated the interface MW mile coefficients

Whether the formulas and methodologies reflected in the NYISO's original auction worksheets would correctly implement the NYISO tariffs under circumstances not present during the period addressed by the Settlement Agreement are also outside the scope of the Settlement Audit. This includes:

- j. How, in the event net auction revenues are insufficient to fully fund payments to feasible ETCNL and residual TCCs, payments should be scaled

Issues outside the scope of the Settlement Audit will be discussed at a meeting being scheduled for October 2005.

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