

## **Long Term TCC Compliance Proposal** **“LSE Price-Taker Approach”**

### **Definition and Creation of Long Term TCCs**

- A Long Term TCC (LTTCC) product will be created by establishing Auction Allocation Rights (AARs) for a quantity of MWs from specific sources and sinks that would be allocated among qualifying Load Serving Entities (LSE) in the zones where each AAR sinks.
- For the purpose of this proposal, Load Serving Entities (LSEs) are those entities that meet the definition of an “LSE” as currently defined in the NYISO tariff.
- The set of AARs to be allocated will be determined prior to the first capability period auction in which this proposal will be implemented and will be derived from a portion of the transmission capability from specific sources to load zones as identified by the set of Existing Transmission Capacity for Native Load (ETCNL), Original Residual TCCs (ORTCCs), and from paths identified by Long Term Transmission Wheeling Agreements (aka – Grandfathered Contracts) that have expired prior to the implementation date of this proposal.
- The quantity of AARs established at implementation will not be reduced going forward and will increase over time as capability associated with terminating Grandfathered Contracts becomes available.
- The details regarding the treatment of Grandfathered Contracts are discussed later in this proposal.

### **Establishment of The Initial Set of AARs**

- The initial or base set of AARs will be 45% of ORTCCs, paths identified by previously terminated Grandfathered Contracts, subject to certain limitations, and the feasible ETCNL determined in the initial AAR analysis.
- To determine the feasible ETCNL, the nominal quantity of ETCNL will be reduced using ETCNL reduction rules as are currently applied in preparation for each capability period auction to ensure simultaneous feasibility.
- The feasibility test for the AAR determination analysis will be performed using summer capability ratings.
- Transmission Owner nominations for ETCNL conversions to ETCNL TCCs will be accounted for using a conservative 5% application of the Capacity Reservation Cap.
- Only feasible ETCNL or ORTCCs defined to sink at the zone, rather than at a load bus would be defined as AARs and subject to conversion into TCCs.
- Figure 1 outlines the high level process envisioned for the initial AAR determination from ETCNL.

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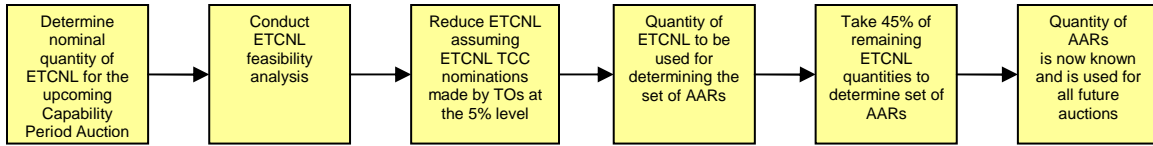


Figure 1

- Figure 2 illustrates the portion of system capability that would be established as AARs from ETCNL in the one-time analysis at implementation.

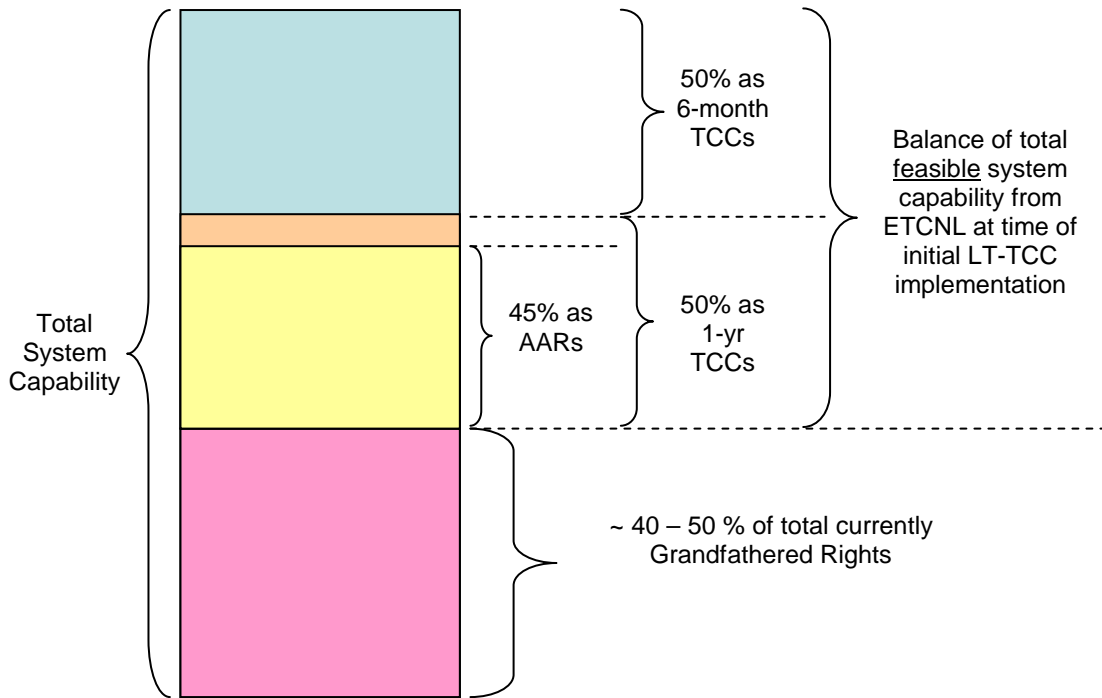


Figure 2

### LSE Annual AAR Allocation and Adjustments for Load Shifts

- A LSEs entitlement to AARs will be based on their load ratio share of the entire set of AARs sinking in a zone and may be adjusted to account for load shifts in the zone annually. A LSE that has lost load since the prior annual allocation of AARs will be offered a reduced allocation in the next annual allocation based on its annual load ratio share and a LSE that acquires load will be allocated the appropriate increased share of AARs in that zone and may convert them into TCCs.
- The initial allocation of AARs will be performed at the implementation of this proposal from the set of AARs determined at that time. Going forward this base set of AARs, defined by source, sink and MW quantity will remain fixed but may be added to over time as capability associated with terminating Grandfathered Contracts becomes available.
- The allocation of AARs to each LSE will be performed by using the ratio of each LSEs 12 month historic energy usage in a zone to the total load in that zone. The

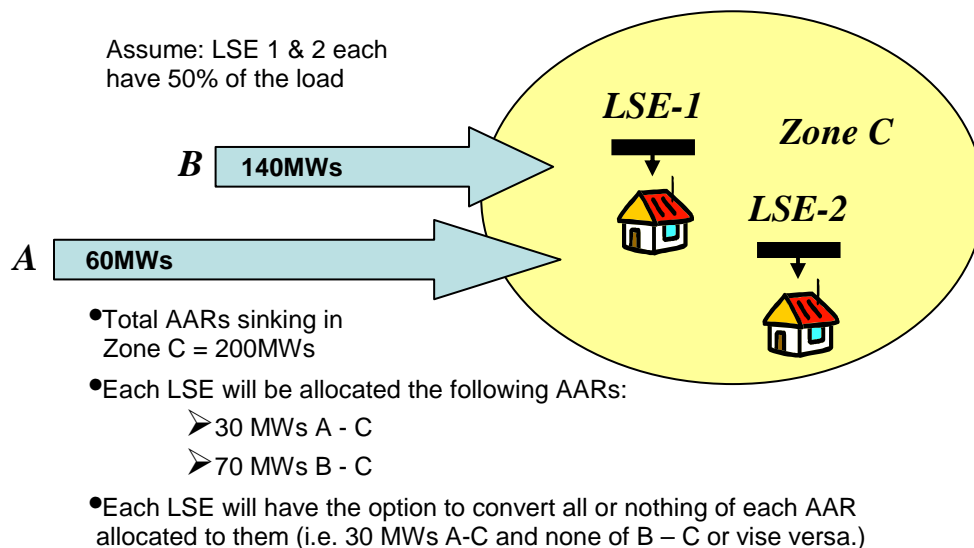
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starting point for the historic 12 month reference period will be defined as the first month prior to the execution of the annual allocation process, for which actual metered load data is available (currently this is 4 months).

- A LSEs allocation of AARs will take into account grandfathered rights that they may already hold as described later in this document.
- Like other TCC auction activities today, the schedule for conducting the allocation and for LSEs to make their conversion decisions will be posted on the NYISO website.

### LSE Option to Convert AARs to TCCs

- On an annual basis, LSEs shall have the option to renew or convert their AARs into 1-year TCCs with the same source, sink and MW quantity as defined by the AAR prior to the Spring Capability Period auction.
- Each LSE may choose to convert all or nothing of each AAR path allocated to them.
- The converted TCCs will be treated for settlement purposes like any other TCC and may be retained by the LSE or sold in the auction.
- Like all TCCs, TCCs converted from AARs will be fully funded.
- Capability associated with AARs that are not converted to TCCs will be released for sale in the Spring Capability Period Auction.
- If converted, the LSE will pay the average market-clearing price for the TCC with that source and sink in the stage 1 one-year rounds of the Spring Capability Period auction.
- Figure 3 shows how two LSEs in a zone would be allocated AARs and their options to convert those AARs to TCCs.



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### Financial Obligations

- Revenues from the sale of TCCs, whether paid by an LSE that converts its AAR to a TCC or by winning bidders in the capability period auctions will be collected by the ISO and paid to the Transmission Owners on the same basis as they are today. It is not envisioned that this proposal will entail changes to the process by which auction revenues flow through the Transmission Owners to the loads in the form of a reduced TSC pursuant to the NYISO tariff, which will be unchanged.
- Financial settlement of TCCs will be identical to current NYISO TCC settlements and holders of long-term TCCs will be subject to all of the normal tariff requirements of a TCC holder including credit requirements.

### Treatment of Grandfathered Agreements

- As noted previously, a LSEs allocation of AARs will take into account Grandfathered Contracts that they may already hold. The process for accounting for these contracts in determining the allocation will be as follows:
  1. A LSEs entitlement to an AAR allocation will first be computed without regard to Grandfathered Contract holdings and a total AAR entitlement determined.
  2. Then the number of AARs eligible for conversion into TCCs will be the total AAR entitlement less the number of Grandfathered TCCs outstanding for any portion of the period covered by the annual TCCs subject to allocation.
  3. The number of AARs eligible for conversion from any source and sink would be reduced proportionately [ $LSE\ j\ AAR\ entitlement\ ik = Total\ AARs\ ik * LSE\ j\ load\ ratio\ share * (total\ LSE\ j\ AAR\ entitlement\ less\ total\ LSEj\ grandfathered\ TCCs) / total\ LSE\ j\ AAR\ entitlement.$ ], where total LSE j AAR entitlement = Total zone AARs \* LSEj load ratio share.
- When a Grandfathered Contract terminates and at the next annual allocation period, the LSE who held the contract and exercises the priority right will receive LTTCCs at 100% of the grandfathered contract amount for 10-years or until the LSE declines the TCC, whichever is earlier.
- If the right is not exercised at initial termination of the contract or the LTTCC is declined per the conditions in the previous bullet, then the capability associated with the former Grandfathered Contract is released with 45% of that capability designated as new AARs that are added to the existing quantity of AARs and is available for allocation to LSEs with load sinking in that zone. The balance of the capability would now be available for sale in the auctions like all other available transmission capability and the allocation of the auction revenues associated with the sale of TCCs supported by this capability would be governed by the provisions of the NYISO tariff.
- This option would be available only to contracts that will expire after the implementation date of the tariff sheets for this proposal.

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- Figure 4 below demonstrates the two options that may occur for a Grandfathered Contract that is terminating.

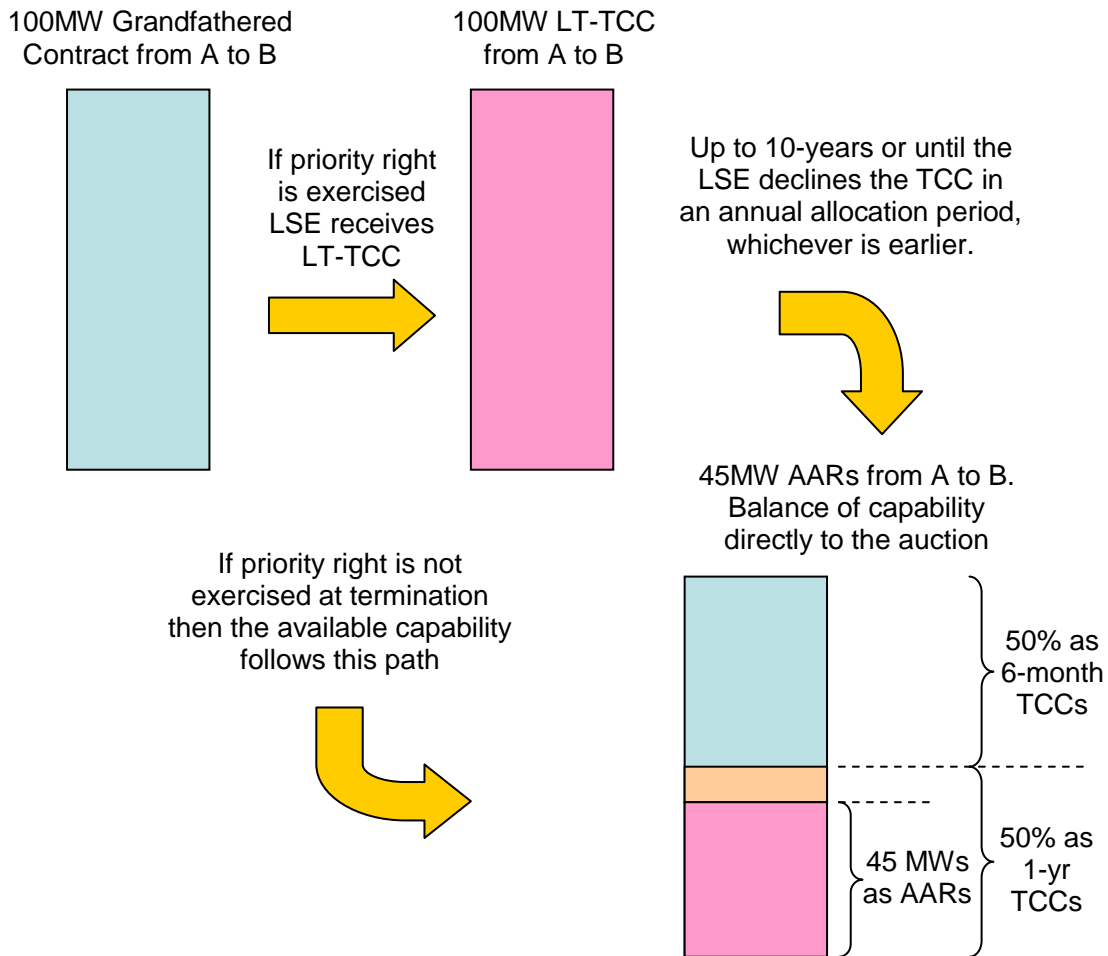


Figure 4

### Creation of new AARs based on already terminated contracts

- At implementation the NYISO would create additional AARs based on paths identified by previously terminated Grandfathered Contracts in Attachment L subject to the following limits.
- Only Grandfathered Contracts previously held by an LSE and that sink in a NYISO load zone are eligible.
- The quantity of these new AARs may be up to 45% of the historic Grandfathered Contract level, subject to simultaneous feasibility and no negative impact on the current levels of feasible ETCNL at the time of initial AAR determination.
- The new AARs would be created with the same sources and sinks as the historic Grandfathered Contracts and AARs created under this method will be allocated to all LSEs in the zone on a load ratio share basis like any regular AAR.
- The figure below shows the approximate total level of feasible ETCNL and ORTCCs that have been supported in recent auctions and an example of previously terminated

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Grandfathered Contracts from which AARs would be created.

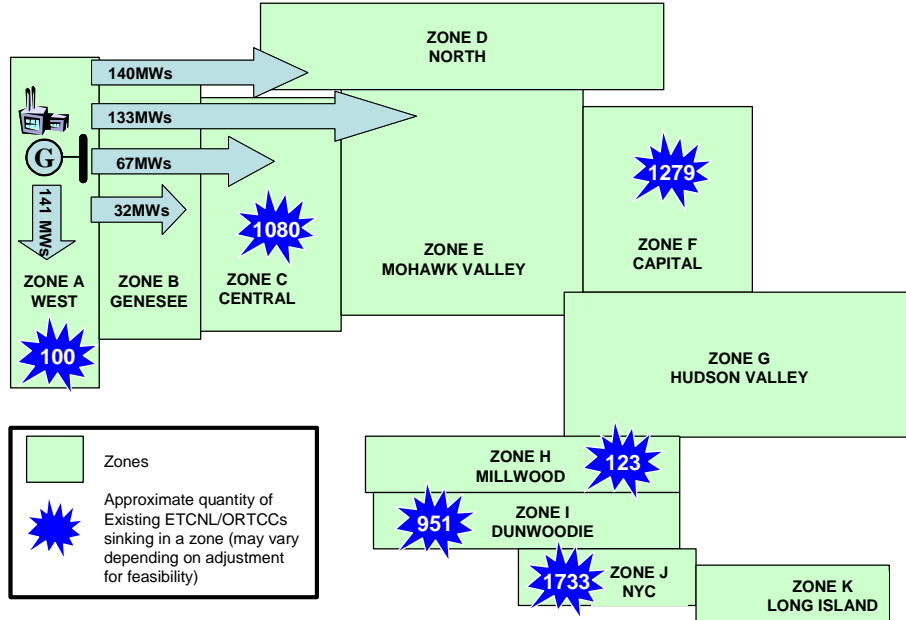


Figure 5

### Determination of System Capability Prior to Each Capability Period Auction

- Prior to each capability period auction the available system capability for the auction must be determined. The basic process that is followed today is shown here in Figure 6.
- Figure 7 shows how the process would change with the introduction of AARs. Note that the set of AARs is updated each year for terminated Grandfathered Contracts and that each LSEs allocation is calculated with any necessary changes to reflect load shifts.
- Next the LSE is informed of its AAR allocation and will need to respond to the NYISO with their ARR TCC conversion elections.
- From that point, the set of fixed TCCs from AAR conversions will be known. The remaining steps in the process look the same as today's process except that converted AAR TCCs will be factored into the remaining analysis to determine the available transmission capability for the upcoming auction.

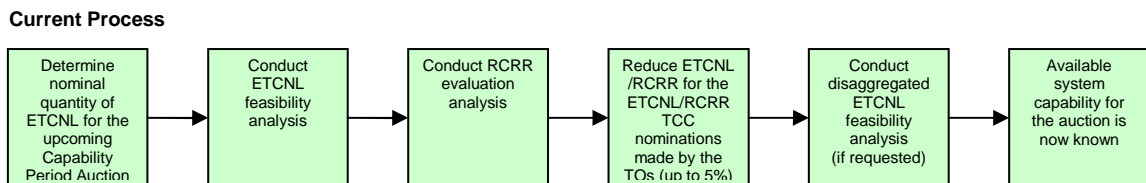


Figure 6

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### Future Process w/AARs & Grandfathered Contract Terminations

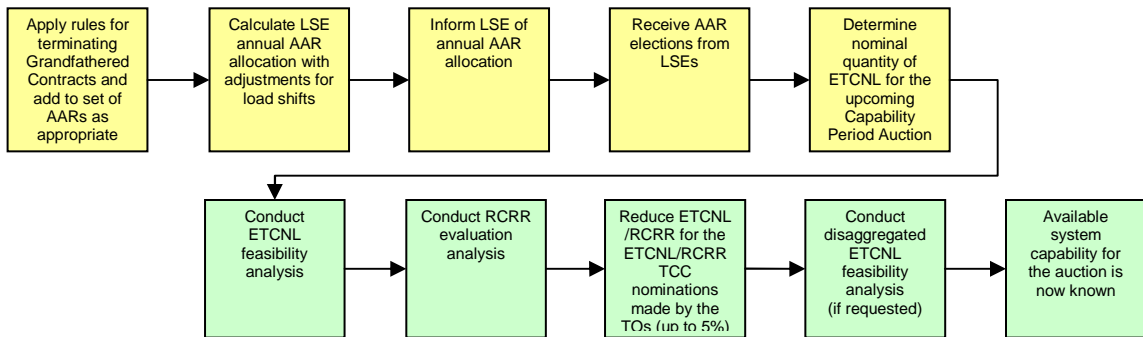


Figure 7

### Temporary Changes in Auction Rounds

- In order to accommodate the increased complexity and administrative requirements of the new LTTCC process, coincident with the implementation of this proposal the NYISO will reduce the total number of auction rounds conducted in a given year and will offer one year TCCs in the Spring Capability Period auction only.
- Assuming a full number of 6 month auction rounds in the Spring and Fall, the NYISO would also be conducting 2 rounds of annual auctions in the Spring. Including the monthly reconfiguration auction rounds, this would be a change from the current 32 auctions per year to a total of 24.
- Within these constraints, the specific combination of 6 month and annual rounds to be conducted will be determined in consultation with stakeholders as is currently done today.
- These steps are interim measures and the structure of auctions will be reviewed as improvements are demonstrated with the introduction of TCC auction automation.