

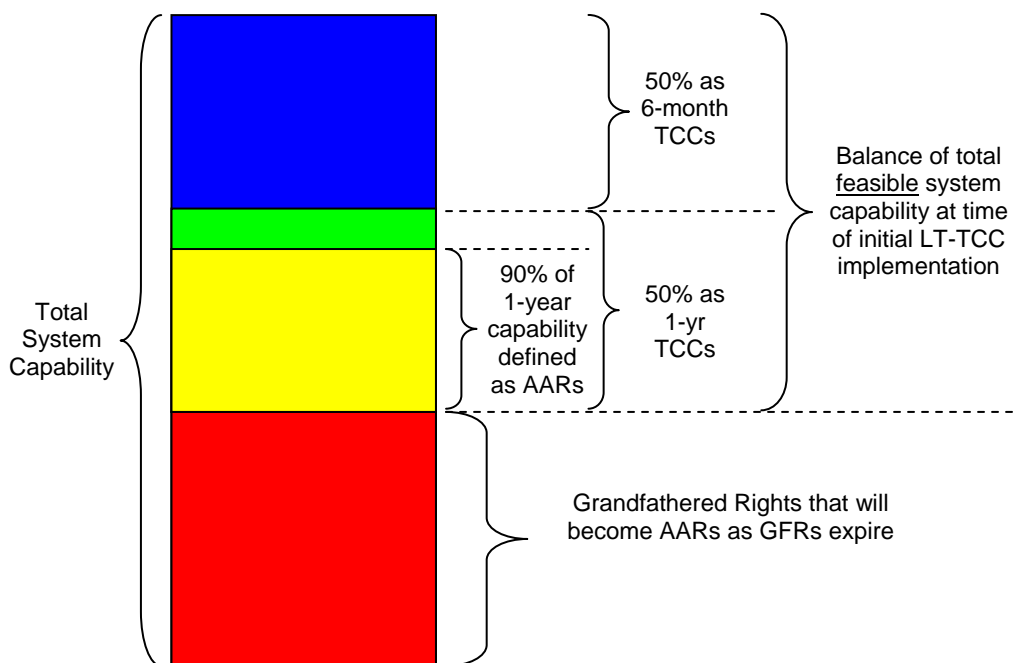
**Market Structures Working Group  
December 1, 2006 Meeting  
Brad Kranz**

**Summary of Comments / Issues from 11/21 MSWG**

1. **Concern with the potential that under the current proposal, if all LSEs opted to convert their AARs to TCCs, it would leave no capacity remaining for the annual TCC auctions.**

At implementation, the NYISO will establish the total quantity of AARs to be used in the annual allocations going forward by performing a one-time calculation of AARs for 90% (instead of the 100% previously discussed) of annual capacity. The amount of annual capacity to be used in this determination will be 50% of all ETCNL & ORTCCs after reductions to ensure feasibility. The resulting set of AARs, would then be allocated to the LSEs as described in the straw proposal and could be converted into 1-yr TCCs by an LSE annually for 10 years.

**Example of System Capability  
for AAR Determination at Initial Implementation**



Note that as part of this proposal, the level of ETCNL and ORTCCs available for 1 year TCCs will be defined in the tariff as no less than 50% of the ETCNL and ORTCC capacity. Going forward, this should ensure that even in the event that all LSEs converted their AARs to TCCs, some amount of 1-yr system capability will be available for purchase in the auction and reductions in ETCNL and ORTCC capacity needed to ensure feasibility of future auctions may be taken from the capacity otherwise available as six month TCCs.

2. **Changes in the final bill settlement rules will change the timeframe in which load is finalized and a question was raised as to whether the NYISO should use final load data instead of 4 month true-up data for determining the LSE's annual energy usage?**

There is a tradeoff between the desire to use the most current load data versus the most final and accurate numbers. It is proposed that the starting point for the historic 12 month reference period 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). Like other TCC auction activities today, the schedule for conducting the allocation and for LSEs to make their conversion decisions would be posted on the NYISO website.

**3. What transitional impacts are there with regard to 1-yr TCCs that are sold in the capability period auction prior to the initial implementation of this proposal?**

It is proposed that the total capacity associated with 1-yr TCCs that are still in effect at the time of the initial implementation of this proposal could be counted towards the system capability to be made available for sale as 6-month TCCs in that first capability period auction. This ensures that the amount of capability that is intended to be set aside for AARs is not impacted for this auction and will effectively reduce the 6-month capability offered for sale this one time, due to the transition. Another alternative would be to not offer 1-year TCCs in the capability period auction prior to the implementation of this LT-TCC proposal.

**4. What is the reason for the priority that has been proposed for expiring grandfathered rights? Also, consider whether to make this option a right of first refusal rather than an independent option every year for 10-years.**

The FERC order creates a situation, similar to the initial ISO startup, in which the rules that participants have been operating under will be changing. The proposed treatment of grandfathered contracts recognizes historic uses of the transmission system to serve load and provides for a transition period under the new rules. After considering stakeholder input from the last meeting, it is proposed that an LSE with an existing grandfathered right would have the opportunity to make a one-time election at expiration of the contract to choose whether or not to take the AARs associated with the grandfathered right at the next AAR allocation period (currently, prior to the Spring capability period TCC). If converted to TCCs, the LSE with an existing grandfathered right would hold those TCCs for up to 10-years (this could occur sooner if the parties choose to terminate the contract early). That is, in order to retain the “grandfathered” AARs the LSE must choose to convert them to a LT-TCC and if at any annual allocation period they opt not to take the LT-TCC, then the “grandfathered” priority will be terminated and these AARs will become part of the total AARs available for allocation among all LSEs (i.e. – NOT back into the general TCC auction pot as currently specified in the tariff).

**5. What opportunity is there to establish additional AARs, particularly in zones where there is no ETCNL or ORTCCs?**

The NYISO has further considered the creation of some amount of AARs that would coincide with historic usage (i.e. using the source-sinks of already terminated contracts) as part of the initial AAR determination. If there is interest in AAR capacity across an interface where there is no ETCNL or ORTCCs, we would request that those LSEs make their specific interests known to the NYISO and we will seek to create AARs across that interface up to the amount of any grandfathered right that previously existed across that interface but which has been terminated prior to the effective date of the tariff amendments to be proposed. Note that any AARs that are created in this manner would be treated as regular AARs to be allocated among the LSEs with load in that zone on a load ratio share basis and no priority would be given to those LSE's with historic contracts that had already terminated.

**6. What is the need for the reduction in the number of auction rounds and what flexibility is there to trade-off annual rounds for 6-month?**

This LT-TCC proposal will result in a significant amount of new work that must be performed each time with no additional increase in resources to support this. In addition, the expected timeframe for implementation is such that this LT-TCC product will have to be administered using existing manual methods similar to the current auctions. Therefore it is necessary to incorporate a temporary reduction in the total number of auction rounds until the TCC auction automation is in place and it becomes feasible for the NYISO to support an increased number of auction rounds again. From a practical standpoint, the ISO is generally indifferent

regarding the combination of rounds, however the proposal raised by Market Participants at the 11/21 MSWG of 2 one-yr rounds and 3 six-month rounds, plus a reconfiguration round for each, appears to be a reasonable alternative.