ISSUES SURROUNDING TCC AUCTIONS FROM MAY 2000 THROUGH OCTOBER 2002

In the course of implementing the July 13, 2004, Settlement Agreement regarding the oversale of 912 MW of capacity in TCC auctions from the fall 2002 capability period TCC auction through July 2004 ("Settlement"), the NYISO determined that it was necessary to incorporate corrections to resolve other issues in TCC settlements for the period affected by the Settlement. The NYISO has since determined that issues of the same nature also occurred in TCC settlements for the period prior to the Settlement period. This paper describes the issues that affect the period from May 2000 through October 2002 ("pre-Settlement period").

The issues affecting the pre-Settlement period can be divided into two categories: revenue allocation issues ("Group One") and auction modeling issues ("Group Two"). Group One issues involve formulas or calculations that impact the distribution of TCC auction revenues and Day-Ahead Market ("DAM") congestion balancing payments among Transmission Owners ("TOs"). Group Two issues are data inconsistencies that were identified through the data validation efforts by the NYISO, TOs and TCC holders undertaken during the Settlement calculation period that relate to the amount of capacity that should have been available for sale in each auction. [1] These data inconsistencies can impact the TCCs sold in each auction and thereby impact the auction revenues received by TOs and the DAM congestion balancing payments paid/received by TOs.

Group One Issues:

The NYISO has determined that several Group One issues similar to those that appeared during the period affected by the Settlement also appeared during the pre-Settlement period. These are summarized below and are described in greater detail in the Appendix.[2]

In several auctions, the amount of feasible ETCNL available for release, or its value, in each round was incorrectly determined. As a consequence, a portion of the auction revenue that was allocated as residual auction revenue among the TOs based on the interface MW mile methodology should have been allocated to individual TOs as ETCNL revenue.

Several auctions also contained errors in (i) point of injection ("POI") and point of withdrawal ("POW") representations of existing ETCNL or of TCCs related to an adjustment taken by a holder of a grandfathered right; and (ii) calculation of ETCNL values.

[1] The data validation efforts included the NYISO's own review, and the review of its independent contractor, of the NYISO databases to correct for inconsistencies. A similar review was undertaken by Transmission Owners and TCC holders for inconsistencies between their records and NYISO databases.

[2] Please note that issues that recur over several Capability period auctions are repeated in the description of errors for each auction.

Group Two Issues:
The NYISO has also determined that several of the Group Two issues that occurred during the TCC Settlement period also occurred during the pre-Settlement period. These are summarized below and are described in greater detail in the Appendix.[3]

Several database inconsistencies between the auction models and the Billing and Accounting Software ("BAS") were discovered through the NYISO's internal audit. These involved: (i) inadvertent misrepresentation of grandfathered rights in the auction model; (ii) inadvertent omission of all or portions of grandfathered rights in the auction model; and/or (iii) inadvertent inclusion of grandfathered rights in the auction model.

From the self-validation efforts of the Transmission Owners undertaken as part of the process for performing the Settlement calculations ("self-validation process"), the NYISO has determined that several grandfathered rights were misrepresented in the auction model for several auctions during this period.

The NYISO has also determined that several grandfathered rights were misrepresented in some or all of the auctions, even though they were modeled as set forth in Attachment L.

[3] Please note that issues that recur over several Capability period auctions are repeated in the description of errors for each auction.

APPENDIX

SPRING 2000

GROUP ONE ISSUES

Negative ETCNL values were incorrectly incorporated into the auction model; the interface MW-mile methodology was incorrectly applied.

The value of an AES TCC adjustment was not properly taken into account for the purpose of reducing the value of Niagara Mohawk's ETCNL. The ETCNL reduction should have been made based upon AES' redirection of capacity, as contemplated by an existing transmission agreement.

NYSEG ETCNL with a POI of West Zone (61752) should have been represented in the auction model as having a POI of Gardenville (24039); and NYSEG ETCNL with a POI of PJM Proxy should have been represented in the auction model as having a POI of Homer City (99998).

Feasible ETCNL was not properly represented in auction rounds. The calculation of TO-specific ETCNL revenues in each round differed from the amount of feasible ETCNL actually sold in that round.

Con Edison ETCNL did not reflect properly the results of the ETCNL feasibility test performed prior to the auction.

Prices for the POWs for Con Edison ETCNL going to the 138 load pocket and the 345 load pocket were reversed.

GROUP TWO ISSUES

Five database inconsistencies between the auction models and the Billing and Accounting Software were discovered in an internal audit: (i) a 300 MW grandfathered right from Roseton to Zone H (23588 to 61759) should have been represented in the auction model as Zone G to Zone H (61758 to 61759); (ii) a 10 MW grandfathered right from N. Troy to Zone J (24018 to 61761) should have been represented in the auction model; (iii) an 800 MW grandfathered right from IP3 to Zone J (23531 to 61761) should have been represented in the auction model as 912 MW; (iv) a 1 MW grandfathered right from Fitzpatrick to Zone F (23598 to 61757) should have been represented in the auction model; and (v) a 733 MW grandfathered right from Poletti to Zone J (23519 to 61761) should have been represented in the auction model as 829 MW.

Three database issues from among those issues first reported to the NYISO by Transmission Owners in the self-validation process affected this auction: (i) a 30 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23599); (ii) a 120 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23599); and (iii) a 265 MW grandfathered right from

Selkirk to Pleasant Valley (23799 to 24000) should have been represented in the auction model as 270 MW.

Three database issues were discovered in the representation of the following grandfathered rights, which grandfathered rights the NYISO represented as set forth in Attachment L: (i) a 30 MW grandfathered right from Niagara to Zone E (23760 to 61756) should have been represented in the auction model as Zone A to Zone D (61752 to 61755); (ii) a 1 MW grandfathered right from Moses to Zone E (23600 to 61756) should have been represented in the auction model as Moses to Zone A (23600 to 61752); and (iii) a 14 MW grandfathered right from Niagara to Zone G (23760 to 61758) should have been represented in the auction model as Niagara to the PJM Proxy (23760 to 61847).

Fall 2000

GROUP ONE ISSUES

Negative ETCNL values were incorrectly incorporated into the auction model; the interface MW-mile methodology was incorrectly applied.

The value of an AES TCC adjustment was not properly taken into account for the purpose of reducing the value of Niagara Mohawk's ETCNL. The ETCNL reduction should have been made based upon AES' redirection of capacity, as contemplated by an existing transmission agreement.

NYSEG ETCNL with a POI of West Zone (61752) should have been represented in the auction model as having a POI of Gardenville (24039); and NYSEG ETCNL with a POI of PJM Proxy should have been represented in the auction model as having a POI of Homer City (99998).

Feasible ETCNL was not properly represented in auction rounds. The calculation of TO-specific ETCNL revenues in each round differed from the amount of feasible ETCNL actually sold in the round.

Con Edison ETCNL did not reflect properly the results of the ETCNL feasibility test performed prior to the auction.

Prices for the POWs for Con Edison ETCNL going to the 138 pocket and the 345 pocket were reversed.

GROUP TWO ISSUES

One database inconsistency between the auction models and the BAS was discovered in an internal audit: a 12 MW grandfathered right from the PJM Proxy to Zone E (61847 to 61756) should have been represented in the auction model as 7 MW. There also was an issue in the BAS: a 57 MW grandfathered right represented in the BAS as Fitzpatrick to

Zone H (23598 to 61759) should have been represented as Fitzpatrick to Zone G (23598 to 61758).

Three database issues from among those issues first reported to the NYISO by Transmission Owners in the self-validation process affected this auction: (i) a 30 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23599); (ii) a 111 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as 120 MW from Ginna to Gilboa (23603 to 23599); and (iii) a 265 MW grandfathered right from Selkirk to Pleasant Valley (23799 to 24000) should have been represented in the auction model as 270 MW.

One database issue was discovered in the representation of the following grandfathered right, which grandfathered right the NYISO modeled as set forth in Attachment L: a 60 MW grandfathered right from Zone I to Zone K (61760 to 61762) should have been represented in the auction model as from Fitzpatrick to Zone K (23598 to 61762).

SPRING 2001

GROUP ONE ISSUES

Negative ETCNL values were incorrectly incorporated into the auction model; the interface MW-mile methodology was incorrectly applied.

The value of an AES TCC adjustment was not properly taken into account for the purpose of reducing the value of Niagara Mohawk's ETCNL. The ETCNL reduction should have been made based upon AES' redirection of capacity, as contemplated by an existing transmission agreement.

NYSEG ETCNL with a POI of West Zone (61752) should have been represented in the auction model as having a POI of Gardenville (24039); and NYSEG ETCNL with a POI of PJM Proxy should have been represented in the auction model as having a POI of Homer City (99998).

Prices for the POWs for Con Edison ETCNL going to the 138 pocket and the 345 pocket were reversed.

GROUP TWO ISSUES

One database inconsistency between the auction models and the BAS was discovered in an internal audit: an 84 MW grandfathered right from Niagara to Keystone (23760 to 61847) should have been represented in the auction model as 148 MW. There also was an issue in the BAS: a 57 MW grandfathered right represented in the BAS as Fitzpatrick to Zone H (23598 to 61759) should have been represented as Fitzpatrick to Zone G (23598 to 61758).

Three database issues from among those issues first reported to the NYISO by Transmission Owners in the self-validation process affected this auction: (i) a 30 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23756); (ii) a 111 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23756); and (iii) a 265 MW grandfathered right from Selkirk to Pleasant Valley (23799 to 24000) should have been represented in the auction model as 270 MW.

One database issue was discovered in the representation of the following grandfathered right, which grandfathered right the NYISO modeled as set forth in Attachment L: a 60 MW grandfathered right from Zone I to Zone K (61760 to 61762) should have been represented in the auction model as Fitzpatrick to Zone K (23598 to 61762).

Fall 2001

GROUP ONE ISSUES

The value of an AES TCC adjustment was not properly taken into account for the purpose of reducing the value of Niagara Mohawk's ETCNL. The ETCNL reduction should have been made based upon AES' redirection of capacity, as contemplated by an existing transmission agreement.

NYSEG ETCNL with a POI of West Zone (61752) should have been represented in the auction model as having a POI of Gardenville (24039); and NYSEG ETCNL with a POI of PJM Proxy should have been represented in the auction model as having a POI of Homer City (99998).

Prices for the POWs for Con Edison ETCNL going to the 138 pocket and the 345 pocket were reversed.

Grandfathered TCC POIs and POWs were not represented in accordance with an adjustment AES made pursuant to an existing transmission agreement.

GROUP TWO ISSUES

Five database inconsistencies between the auction models and the BAS were discovered in an internal audit: (i) a 165 MW grandfathered right from Scriba to Zone G (23744 to 61758) should have been represented in the auction model as 101 MW; (ii) a 553 MW grandfathered right from Independence to Pleasant Valley (23800 to 24000) should have been represented in the auction model as 853 MW; (iii) a 112MW grandfathered right from Niagara to Keystone (23760 to 61847) should have been represented in the auction model as 148 MW; (iv) a 38 MW grandfathered right from Moses to Keystone (23600 to 61847) should have been represented in the auction model as 48 MW; and (v) a 40 MW grandfathered right from Sandy Pond to Keystone (61845 to 61847) should not have been represented in the auction model. There also was an issue in the BAS: a 57 MW

grandfathered right represented in the BAS as Fitzpatrick to Zone H (23598 to 61759) should have been represented as Fitzpatrick to Zone G (23598 to 61758).

Three database issues from among those issues first reported to the NYISO by Transmission Owners in the self-validation process affected this auction: (i) a 30 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23756); (ii) a 111 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23756); and (iii) a 265 MW grandfathered right from Selkirk to Pleasant Valley (23799 to 24000) should have been represented in the auction model as 270 MW.

Spring 2002

GROUP ONE ISSUES

The value of an AES TCC adjustment was not properly taken into account for the purpose of reducing the value of Niagara Mohawk's ETCNL. The ETCNL reduction should have been made based upon AES' redirection of capacity, as contemplated by an existing transmission agreement.

NYSEG ETCNL with a POI of West Zone (61752) should have been represented in the auction model as having a POI of Gardenville (24039); and NYSEG ETCNL with a POI of PJM Proxy should have been represented in the auction model as having a POI of Homer City (99998).

Feasible ETCNL was not properly represented in auction rounds. The calculation of TO-specific ETCNL revenues in each round differed from the amount of feasible ETCNL actually sold in that round.

The value of the AES TCC adjustment was not properly calculated for the purpose of reducing the value of the Niagara Mohawk ETCNL based upon AES' redirection of capacity, as contemplated by an existing transmission agreement.

Grandfathered TCC POIs and POWs were not represented in accordance with an adjustment AES made pursuant to an existing transmissions agreement.

GROUP TWO ISSUES

Five database inconsistencies between the auction models and the BAS were discovered in an internal audit: (i) a 14 MW grandfathered right from Niagara to Zone D (23760 to 61755) should have been represented in the auction model as 22 MW from Niagara to Zone E (23760 to 61756); (ii) a 64 MW grandfathered right from Niagara to Keystone (23760 to 61847) should have been represented in the auction model as 84 MW; (iii) a 21 MW grandfathered right from Moses to Keystone (23600 to 61847) should have been represented in the auction model as 20 MW; (iv) a 17 MW grandfathered right from

Moses to Zone A (23600 to 61752) should have been represented in the auction model as 10 MW from Moses to Keystone (23600 – 61847); (v) a 733 MW grandfathered right from Poletti to Zone J (23519 to 61761) should have been represented in the auction model as 829 MW. There also was an issue in the BAS: a 57 MW grandfathered right represented in the BAS as Fitzpatrick to Zone H (23598 to 61759) should have been represented as Fitzpatrick to Zone G (23598 to 61758).

Three database issues from among those issues first reported by Transmission Owners in the self-validation process affected this auction: (i) a 30 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23756); (ii) a 103 MW grandfathered right from Ginna to Zone F (23603 to 61757) should have been represented in the auction model as Ginna to Gilboa (23603 to 23756); and (iii) a 265 MW grandfathered right from Selkirk to Pleasant Valley (237099 to 24000) should have been represented in the auction model as 270 MW.