

Incremental TCC Awards

Initial Discussion
Market Issues Working Group
May 14, 2007

Incremental TCC Awards

Agenda:

- ◆ Background
- ◆ Practical Considerations
- ◆ Proposed Approach
- ◆ High Level Design Criteria
- ◆ Review of Interim Process
- ◆ Discussion of Issues
- ◆ Summary

Incremental TCC Awards

Background:

- ◆ NYISO tariff provides for award of Incremental TCCs to parties that increase the transfer capability of the system
- ◆ Although some interim awards have been made, a procedure for permanent awards has never been formalized with stakeholders
- ◆ Expansion TCCs last discussed March 20, 2002
 - *Numerous other priorities interceded and there have been relatively few projects to generate MP interest in raising the establishment of a permanent process as a priority*
- ◆ With the FERC order on LTFTRs some action is now necessary

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Background:

- ◆ In Order 681 FERC mandated process for allocation of transmission rights for LSEs in a series of Guidelines:
 - *Guideline #3 is most applicable and, in brief, states that transmission organizations must provide a means to make available LTFTRs Made Feasible by Transmission Upgrades or Expansions Upon Request to Any Party that Pays for Such Upgrades or Expansions in Accordance with the Transmission Organization's Prevailing Cost Allocation Methods for Upgrades or Expansions*
- ◆ NYISO's February 5, 2007 Compliance Filing made a commitment to file such changes as necessary by March 1, 2008

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Practical Considerations:

- ◆ Schedule imposed by FERC order means:
 - *We need to consider proposals that can be implemented by next year; and*
 - *Proposal must be capable of being supported with the current auction tools and NYISO resources*
- ◆ TCC automation project is still ongoing
 - *End State Auction relies on completion of Phases 1-3 at a minimum, which is still some years off*
 - *Limits the level of complexity that can be accommodated given the existing capabilities and manpower constraints*
- ◆ LECG 3-02 proposal is not feasible at this time
 - *Due to complexity and software/work necessary to support*

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Proposed Approach:

- ◆ Base initial starting point for discussion on the Interim TCC Award Process
 - *This is essentially the process that was used to award TCCs for the NYPA Cap Banks at Marcy*
- ◆ Seek stakeholder input and identify areas for potential modification
- ◆ Consider credible scenarios that a proposal should address given the types of projects we are seeing
- ◆ Recognize future enhancements may be necessary or desired
 - *Can try to anticipate to the extent possible but must focus on immediate needs*

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High Level Design Criteria:

- *Reward investors appropriately for the value of their transmission upgrades*
- *Award TCCs to investors in an expansion only if they are made possible by the expansion*
- *Base expansion TCC awards on choices made by investors when possible*
- *Maintain a simultaneously feasible set of TCCs, including grandfathered TCCs, TCCs purchased in auctions, and TCCs awarded for transmission expansions*

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Review of Interim Expansion Award Process:

◆ Procedural Outline

- *After application approval, NYISO analyzes expansion for newly created TCCs*
- *Award of TCCs made for 20 years upon project commercialization*
- *All necessary technical data must be provided*
- *Expander can make fee based requests for non-binding estimates*
- *Expander can request TCCs with POI/POWs that generally align with the project's technical parameters. Requests can be rejected or modified if they stray from the "primary path"*
 - Single POI/POW pair with number of TCCs
 - May request multiple analyses and TCCs may be non-continuous
- *In any case, the NYISO determines the final award*

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Review of Interim Expansion Award Process:

- ◆ Procedural Outline Cont...
 - *TCCs are determined separately for Summer & Winter*
 - Based on prior period Auction results
 - Any other previous expansions are included in the baseline
 - *Any expansion is first checked to ensure no TCCs are awarded that already exist*
 - *No free-riders (common feature)*
 - *With all existing TCCs and rights modeled as injections and withdrawals, NYISO models requested POI as a zero cost generator and POW with an arbitrary linear demand function*
 - *OPF will find if any requested TCCs are then already feasible*
 - Any TCCs thus found would NOT be awarded

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Review of Interim Expansion Award Process:

- ◆ Procedural Outline Cont...
 - *After adding any identified pre-expansion TCCs into the model, OPF is run with the expansion to determine the expansion TCCs*
 - *Shortly before commercial operation, NYISO would receive final request of single POI/POW and # of TCCs requested from expander*
 - Award is determined from this request
 - *As in other proposals, expansion TCCs are not reduced to obtain simultaneous feasibility; only ETCNL is reduced*
 - *In any situation where there are multiple projects under consideration, evaluations are performed by commercial date, in sequential order*

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Discussion of Issues:

- ◆ TCC Options are not feasible at this time
 - *Options, may be desirable but would further challenge the ability to support the number of auction rounds offered on top of the already added AAR (LTFTR) tasks*
 - *Options would be another step in series with this process*
 - *Technical issues may exist in doing options with an AC model and the current production version of the OPF used by NYISO does not support options*
 - *Many changes for the Market to internalize simultaneously*

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Discussion of Issues:

- ◆ What duration should the awards be made for?
 - *Re-evaluate every year*
 - *10 year award with option to renew*
 - *Fixed 20 or 30 year award*

- ◆ Process for conducting non-binding estimates
 - *How do we handle potential for many iterations of non-binding estimates vs. resource constraints?*
 - Utilize Preference Bids
 - PJM 3-Pass Method (see next slide)
 - Fee-based outsourcing to qualified vendor under the guidance of NYISO staff

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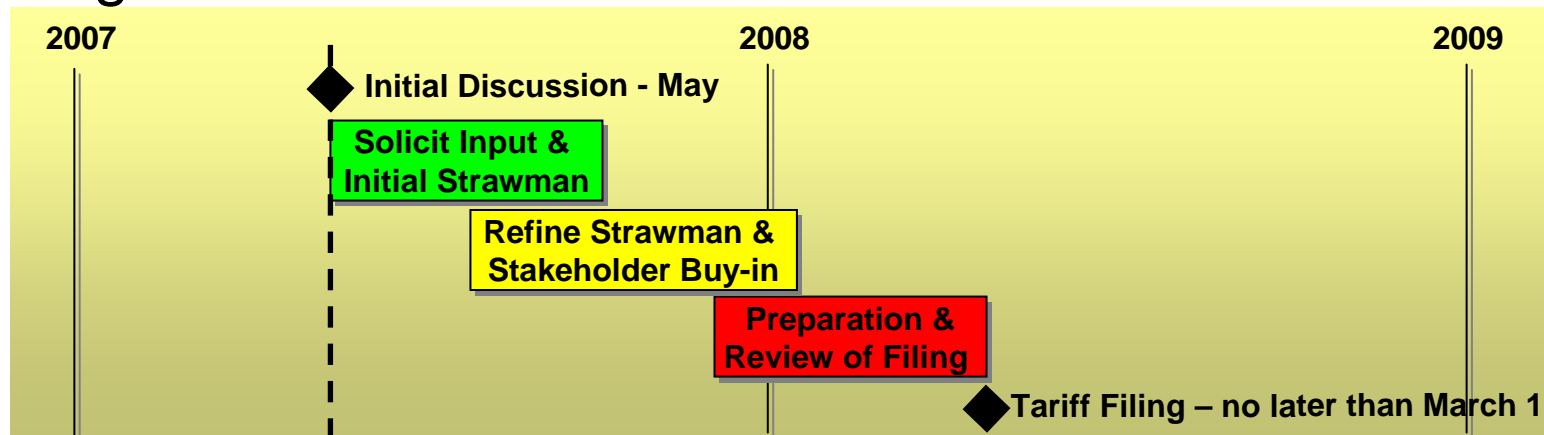
Discussion of Issues:

- ◆ Description of PJM 3-Pass Method
 - *Allocates incremental ARR in a three-round allocation process in which the customer requests incremental ARR for three pairs of point-to-point combinations (one point-to-point combination is requested per round).*
 - *In each round, one-third of the Incremental ARRs made available by the expansion project are assigned to the requester.*
 - *After each of rounds one and two, the requester may accept the assigned Incremental ARRs or refuse them.*
 - Acceptance of the assignment will remove the assigned Incremental ARRs from availability in the next rounds.
 - Refusal of the assignment will result in the Incremental ARR being available for the next round.
 - *The Incremental ARR assignment made in round three will be final and binding.*
 - *Note - PJM awards Auction Revenue Rights (ARRs), NYISO award would be in TCCs*

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Summary:

- ◆ Need to provide near term process for permanent TCC awards recognizing time constraints and practical considerations
- ◆ Request that MPs provide feedback on what has been discussed and identify other issues and considerations for follow-up discussion
- ◆ High Level Timeline



Draft for Discussion Purposes Only